Blackline Showing Federal Reserve's June 12, 2014 Proposed Changes to Capital Planning and Stress Testing Regulations

§ 225.8 Capital planning.

(a) Purpose. This section establishes capital planning and prior notice and approval requirements for capital distributions by certain bank holding companies.

(b) Scope and ~~*effective date.*~~reservation of authority. (1) Applicability. Except as provided in paragraph (c), this section applies to ~~every~~:

(i) Any top-tier bank holding company domiciled in the United States~~:(i)~~ with average total consolidated assets of $50 billion or more~~.~~ ($50 billion asset threshold);

(ii) Any other bank holding company domiciled in the United States that is made subject to this section, in whole or in part, by order of the Board;

(iii) Any U.S. intermediate holding company subject to this section pursuant to § 252.153; and

(iv) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) Average total consolidated assets. For purposes of this section, average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the ~~company's~~company's total consolidated assets, as reported on the ~~company's~~company's FR Y-~~-~~9C, for the most recent quarter or consecutive quarters up to the most recent four consecutive quarters. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average~~; or~~.

~~(ii) That is subject to this section, in whole or in part, by order of the Board based on the institution's size, level of complexity, risk profile, scope of operations, or financial condition.~~

~~(2) Beginning on December 23, 2011, the provisions of this section shall apply to any bank holding company that is subject to this section pursuant to paragraph (b)(1), provided that:~~

~~(i) Until July 21, 2015, this section will not apply to any bank holding company subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010); and~~

~~(ii) A bank holding company that becomes subject to this section pursuant to paragraph (b)(1)(i) after the 5th of January of a calendar year shall not be subject to the requirements of paragraphs (d)(1)(ii), (d)(4), and (f)(1)(iii) of this section until January 1 of the next calendar year.~~

~~(3) Notwithstanding any other requirement in this section, for a given capital plan cycle:~~

~~(i) Until October 1, 2015, a bank holding company's estimates of its pro forma regulatory capital ratios and its pro forma tier 1 common ratio over the planning horizon shall not include estimates using the advanced approaches; and~~

~~(ii) Beginning October 1, 2015, for a given capital plan cycle (including for purposes of the January 5 submission of a capital plan under paragraph (d)(1) of this section and any resubmission of the capital plan under paragraph (d)(4) of this section during the capital plan cycle), a bank holding company's estimates of its pro forma regulatory capital ratios and its pro forma tier 1 common ratio over the planning horizon shall not include estimates using the advanced approaches if the bank holding company is notified on or after the first day of that capital plan cycle (October 1) that the bank holding company is required to calculate its risk-based capital requirements using the advanced approaches.~~

~~(4)~~(3) Ongoing applicability. A bank holding company (including any successor bank holding company) that is subject to any requirement in section shall remain subject to the requirement unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(4) Reservation of authority. Nothing in this section shall limit the authority of the Federal Reserve to issue a capital directive or take any other supervisory or enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law.

~~(c~~(5) Rule of construction. Unless the context otherwise requires, any reference to bank holding company in this section shall include a U.S. intermediate holding company and shall include a nonbank financial company supervised by the Board to the extent this section is made applicable pursuant to a rule or order of the Board.

(c) Transitional arrangements. (1) Transition periods for certain bank holding companies. (i) A bank holding company is subject to this section beginning on the first day of the first capital plan cycle that begins after the bank holding company meets or exceeds the $50 billion asset threshold (as measured under paragraph (b)(1) of this section) for the first time, unless that time is extended by the Board in writing.

(ii) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a bank holding company described in paragraph (c)(1)(i) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(2) Transition periods for subsidiaries of certain foreign banking organizations. (i) Bank holding companies that rely on SR Letter 01-01. (A) A bank holding company that meets the $50 billion

asset threshold (as measured under paragraph (b)(1) of this section) and is relying as of July 20, 2015, on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010) is subject to this section beginning on January 1, 2016, unless that time is extended by the Board in writing.

(B) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a bank holding company described in paragraph (c)(2)(i)(A) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(ii) U.S. intermediate holding companies. (A) A U.S. intermediate holding company is subject to this section beginning on the first day of the next capital plan cycle after the date that the U.S. intermediate holding company is required to be established pursuant to § 252.153, unless that time is extended by the Board in writing.

(B) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a U.S. intermediate holding company described in paragraph (c)(2)(ii)(A) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(iii) Bank holding company subsidiaries of U.S. intermediate holding companies required to be established by July 1, 2016. (A) Notwithstanding any other requirement in this section, a bank holding company that is a subsidiary of a U.S. intermediate holding company and is subject to this section on January 1, 2016 (or, with the mutual consent of the company and Board, another bank holding company domiciled in the United States), shall remain subject to paragraph (e) of this section until December 31, 2017, and shall remain subject to the requirements of paragraphs (f) and (g) of this section until the Board issues an objection or non-objection to the capital plan of the relevant U.S. intermediate holding company.

(B) After the time periods set forth in paragraph (c)(iii)(A) of this section, this section will cease to apply to a bank holding company that is a subsidiary of a U.S. intermediate holding company, unless otherwise determined by the Board in writing.

(3) Transition periods for bank holding companies subject to the advanced approaches. (i) Notwithstanding any other requirement in this section, a bank holding company must use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 252, subpart D and E, as applicable, to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio for the capital plan cycle beginning October 1, 2014, and the bank holding company may not use the advanced approaches to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio until January 1, 2016.

(ii) Beginning January 1, 2016, a bank holding company must use the advanced approaches to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio for purposes of its capital plan submission under paragraph (e) of this section if the Board notifies the bank holding company before the first day of the capital plan cycle that the bank holding company is required to use the advanced approaches to determine its risk-based capital requirements.

(d) Definitions. For purposes of this section, the following definitions apply:

(1) Advanced approaches means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

~~(2) *Capital action* means any issuance~~(2) BHC stress scenario means a scenario designed by a bank holding company that stresses the specific vulnerabilities of the bank holding company's risk profile and operations, including those related to the company's capital adequacy and financial condition.

(3) Capital action means any issuance or redemption of a debt or equity capital instrument, any capital distribution, and any similar action that the Federal Reserve determines could impact a bank holding ~~company's~~company's consolidated capital.

(~~3~~4) Capital distribution means a redemption or repurchase of any debt or equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum regulatory capital ratio, and any similar transaction that the Federal Reserve determines to be in substance a distribution of capital.

(~~4~~5) Capital plan means a written presentation of a bank holding ~~company's~~company's capital planning strategies and capital adequacy process that includes the mandatory elements set forth in paragraph (~~d~~e)(2) of this section.

(~~5~~6) Capital plan cycle means:

(i) Until September 30, 2015, the period beginning ~~on~~ October 1 of a calendar year and ending on September 30 of the following calendar year~~.~~, and

~~(6) *Capital*~~ (ii) Beginning October 1, 2015, the period beginning January 1 of a calendar year and ending on December 31 of that year.

(7) Capital policy means a bank holding company's written assessment of the principles and guidelines used for capital planning, capital issuance, capital usage and distributions, including internal capital goals; the quantitative or qualitative guidelines for ~~dividend and stock repurchases~~capital distributions; the strategies for addressing potential capital shortfalls; and the internal governance procedures around capital policy principles and guidelines.

(~~7~~8) Minimum regulatory capital ratio means any minimum regulatory capital ratio that the Federal Reserve may require of a bank holding company, by regulation or order, including, as applicable, the bank holding company's tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part 225) and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation.

(~~8~~9) Nonbank financial company supervised by the Board means a company that the Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(10) Planning horizon means the period of at least nine consecutive quarters, beginning with the quarter preceding the quarter in which the bank holding company submits its capital plan, over which the relevant projections extend.

(~~9~~11) Tier 1 capital has the same meaning as under appendix A to this part or under 12 CFR part 217, as applicable, or any successor regulation.

(~~10~~12) Tier 1 common capital means tier 1 capital as defined under appendix A to this part less the non-common elements of tier 1 capital, including perpetual preferred stock and related surplus, minority interest in subsidiaries, trust preferred securities and mandatory convertible preferred securities.

(~~11~~13) Tier 1 common ratio means the ratio of a bank holding company's tier 1 common capital to total risk-weighted assets as defined under appendices A and E to this part.

~~(d~~(14) U.S. intermediate holding company means the top-tier U.S. company that is required to be established pursuant to § 252.153.

(e) General requirements. (1) Annual capital planning. (i) A bank holding company must develop and maintain a capital plan.

(ii) A bank holding company must submit its complete capital plan to the Board and the appropriate Reserve Bank ~~and the Board~~ each year. For the capital plan cycle beginning October 1, 2014, the capital plan must be submitted by ~~the 5th of~~ January 5, 2015, or such later date as directed by the Board or by the appropriate Reserve Bank~~,~~ with concurrence of the Board. For each capital plan cycle beginning thereafter, the capital plan must be submitted by April 5, or such later date as directed by the Board or by the appropriate Reserve Bank with concurrence of the Board.

(iii) The bank holding company's board of directors or a designated committee thereof must at least annually and prior to submission of the capital plan under paragraph (~~d~~e)(1)(ii) of this section:

(A) Review the robustness of the bank holding company's process for assessing capital adequacy,

(B) Ensure that any deficiencies in the bank holding company's process for assessing capital adequacy are appropriately remedied; and

(C) Approve the bank holding company's capital plan.

(2) Mandatory elements of capital plan. A capital plan must contain at least the following elements:

(i) An assessment of the expected uses and sources of capital over the planning horizon that reflects the bank holding company's size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions, including:

(A) Estimates of projected revenues, losses, reserves, and pro forma capital levels, including any minimum regulatory capital ratios (for example, leverage, tier 1 risk-based, and total risk-based capital ratios) and any additional capital measures deemed relevant by the bank holding company, over the planning horizon under expected conditions and under a range of ~~stressed~~ scenarios, including any scenarios provided by the Federal Reserve and at least one ~~stressed~~BHC stress scenario ~~developed by the bank holding company appropriate to its business model and portfolios~~;

(B) A calculation of the pro forma tier 1 common ratio over the planning horizon under expected conditions and under a range of stressed scenarios and discussion of how the company will maintain a pro forma tier 1 common ratio above 5 percent under expected conditions and the stressed scenarios required under paragraphs (~~d~~e)(2)(i)(A) and (e)(2)(ii) of this section;

(C) A discussion of the results of any stress test required by law or regulation, and an explanation of how the capital plan takes these results into account; and

(D) A description of all planned capital actions over the planning horizon.

(ii) A detailed description of the bank holding company's process for assessing capital adequacy, including:

(A) A discussion of how the bank holding company will, under expected and stressful conditions, maintain capital commensurate with its risks, maintain capital above the minimum regulatory capital ratios and above a tier 1 common ratio of 5 percent, and serve as a source of strength to its subsidiary depository institutions;

(B) A discussion of how the bank holding company will, under expected and stressful conditions, maintain sufficient capital to continue its operations by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary;

(iii) The bank holding company's capital policy; and

(iv) A discussion of any expected changes to the bank holding company's business plan that are likely to have a material impact on the ~~firm's~~bank holding company's capital adequacy or liquidity.

(3) Data collection. Upon the request of the Board or appropriate Reserve Bank, the bank holding company shall provide the Federal Reserve with information regarding:

(i) The bank holding company's financial condition, including its capital;

(ii) The bank holding company's structure;

(iii) Amount and risk characteristics of the bank holding company's on- and off-balance sheet exposures, including exposures within the bank holding company's trading account, other trading-related exposures (such as counterparty-credit risk exposures) or other items sensitive to changes in market factors, including, as appropriate, information about the sensitivity of positions to changes in market rates and prices;

(iv) The bank holding company's relevant policies and procedures, including risk management policies and procedures;

(v) The bank holding company's liquidity profile and management;~~ and~~

~~(vi~~(vi) The loss, revenue, and expense estimation models used by the bank holding company for stress scenario analysis, including supporting documentation regarding each model's development and validation; and

(vii) Any other relevant qualitative or quantitative information requested by the Board or by the appropriate Reserve Bank to facilitate review of the bank holding company's capital plan under this section.

(4) Re-submission of a capital plan. (i) A bank holding company must update and re-submit its capital plan to the appropriate Reserve Bank within 30 calendar days of the occurrence of one of the following events:

(A) The bank holding company determines there has been or will be a material change in the bank holding company's risk profile, financial condition, or corporate structure since the bank holding company ~~adopted~~last submitted the capital plan~~;~~ to the Board and the appropriate Reserve Bank under this section; or

(B) The Board or the appropriate Reserve Bank~~ objects to the capital plan; or~~

~~(C) The Board or the appropriate Reserve Bank,~~ with concurrence of the Board, directs the bank holding company in writing to revise and resubmit its capital plan for any of the following reasons:

(1) The capital plan is incomplete or the capital plan, or the bank holding company's internal capital adequacy process, contains material weaknesses;

(2) There has been, or will likely be, a material change in the bank holding company's risk profile (including a material change in its business strategy or any risk exposure), financial condition, or corporate structure;

(3) The ~~stressed~~BHC stress scenario(s) ~~developed by the bank holding company is~~are not appropriate to ~~its~~the bank holding company's business model and portfolios, or changes in financial markets or the macro-economic outlook that could have a material impact on a bank holding company's risk profile and financial condition require the use of updated scenarios; or

(4) The capital plan or the condition of the bank holding company raise any of the issues described in paragraph (e)(2)(ii) of this section.

(ii) A bank holding company may resubmit its capital plan to the Federal Reserve if the Board or the appropriate Reserve Bank~~,~~ objects to the capital plan.

(iii) The Board or the appropriate Reserve Bank with concurrence of the Board, may~~, at its discretion,~~ extend the 30-day period in paragraph (~~d~~e)(4)(i) of this section for up to an additional 60 calendar days, or such longer period as the Board or the appropriate Reserve Bank, with concurrence of the Board, determines in its discretion appropriate.

(~~iii~~iv) Any updated capital plan must satisfy all the requirements of this section; however, a bank holding company may continue to rely on information submitted as part of a previously submitted capital plan to the extent that the information remains accurate and appropriate.

~~(e~~(5) Confidential treatment of information submitted. The confidentiality of information submitted to the Board under this section and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

(f) Review of capital plans by the Federal Reserve; publication of summary results. (1) Considerations and inputs. (i) The Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, will consider the following factors in reviewing a bank holding company's capital plan:

(A) The comprehensiveness of the capital plan, including the extent to which the analysis underlying the capital plan captures and addresses potential risks stemming from activities across the firm and the company's capital policy;

(B) The reasonableness of the bank holding ~~company's~~company's capital plan, the assumptions and analysis underlying the capital plan~~ and its methodologies for reviewing~~, and the robustness of its capital adequacy process; and

(C) The bank holding company's ability to maintain capital above each minimum regulatory capital ratio and above a tier 1 common ratio of 5 percent on a pro forma basis under expected and stressful conditions throughout the planning horizon, including but not limited to any ~~stressed~~ scenarios required under ~~paragraph (d~~paragraphs (e)(2)(i)(A) and (ii) of this section.

(ii) The Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, will also consider the following information in reviewing a bank holding company's capital plan:

(A) Relevant supervisory information about the bank holding company and its subsidiaries;

(B) The bank holding company's regulatory and financial reports, as well as supporting data that would allow for an analysis of the bank holding company's loss, revenue, and reserve projections;

(C) As applicable, the Federal Reserve's own pro forma estimates of the firm's potential losses, revenues, reserves, and resulting capital adequacy under expected and stressful conditions, including but not limited to any ~~stressed~~ scenarios required under ~~paragraph (d~~paragraphs (e)(2)(i)(A) and (ii) of this section, as well as the results of any stress tests conducted by the bank holding company or the Federal Reserve; and

(D) Other information requested or required by the Board or the appropriate Reserve Bank ~~or the Board~~, as well as any other information relevant, or related, to the bank holding company's capital adequacy.

(2) Federal Reserve action on a capital plan. (i) The Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, will object, in whole or in part, to the capital plan or provide the bank holding company with a notice of non-objection to the capital plan:

(A) For the capital plan cycle beginning October 1, 2014, by March 31, 2015;

(B) For each capital plan cycle beginning thereafter, by June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (~~d~~e)(1)(ii) of this section~~,~~; and

~~(B) By the date that is~~(C) For a capital plan resubmitted pursuant to paragraph (e)(4) of this section, within 75 calendar days after the date on which a capital plan ~~was~~is resubmitted ~~pursuant~~, unless the Board provides notice to ~~paragraph (d)(4) of this section~~the company that it is extending the time period.

(ii) The Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, may object to a capital plan if it determines that:

(A) The bank holding company has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process;

(B) The assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies for reviewing the robustness of its capital adequacy process, are not reasonable or appropriate;

(C) The bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio and above a tier 1 common ratio of 5 percent, on a pro forma basis under expected and stressful conditions throughout the planning horizon; or

(D) The bank holding company's capital planning process or proposed capital distributions otherwise constitute an unsafe or unsound practice, or would violate any law, regulation, Board order, directive, or ~~any~~ condition imposed by, or written agreement with, the Board. In determining whether a capital plan or any proposed capital distribution would constitute an unsafe or unsound practice, the Board or the appropriate Reserve Bank would consider whether the bank holding company is and would remain in sound financial condition after giving effect to the capital plan and all proposed capital distributions.

(iii) The Board or the appropriate Reserve Bank~~, with concurrence of the Board,~~ will notify the bank holding company in writing of the reasons for a decision to object to a capital plan.

(iv) If the Board or the appropriate Reserve Bank~~, with concurrence of the Board,~~ objects to a capital plan and until such time as the Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than those capital distributions associated with a new issuance of instruments eligible for inclusion in the numerator of a minimum regulatory capital ratio or capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(v)(A) If the Federal Reserve does not object to a bank holding company's capital plan and the company raises a smaller dollar amount of regulatory capital in a calendar quarter than the bank holding company projected that it would issue under baseline conditions in its capital plan, the bank holding company must reduce the dollar amount of its capital distributions on regulatory capital instruments with greater or equal ability to absorb losses, increase the dollar amount of its capital issuances by issuing regulatory capital instruments that have greater or equal ability to absorb losses, or take any combination of the foregoing actions such that the net dollar amounts of the company's actual capital issuances and capital distributions in that calendar quarter are no less than the amounts projected in the bank holding company's capital plan for the calendar quarter.

(B) For purposes of paragraph (f)(2)(v)(A) of this section and in decreasing order of their ability to absorb losses, the applicable categories of regulatory capital instruments are common equity tier 1 capital, additional tier 1 capital, and tier 2 capital, each as defined in 12 CFR 217.2.

(C) Paragraph (f)(2)(v)(A) of this section shall not apply to a capital issuance to the extent that a planned but unexecuted issuance of a capital instrument relates to a planned merger or acquisition that is no longer expected to be consummated.

(vi) The Board may disclose publicly its decision to object or not object to a bank holding company's capital plan under this section, along with a summary of the Board's analyses of that company. Any disclosure under this paragraph ~~(e)(2)(v)~~ will occur by March 31~~,~~ (for the capital plan cycle beginning October 1, 2014) or June 30 (for each capital plan cycle beginning thereafter), unless the Board determines that a later disclosure date is appropriate.

(3) Request for reconsideration or hearing. (i) General. Within 10 calendar days of receipt of a notice of objection to a capital plan by the Board or the appropriate Reserve Bank:

(~~i~~A) A bank holding company may submit a written request to the Board requesting reconsideration of the objection, including an explanation of why reconsideration should be granted. Within 10 calendar days of receipt of the bank holding company's request, the Board will notify the company of its decision to affirm or withdraw the objection to the bank holding company's capital plan or a specific capital distribution; or

(~~ii~~B) As an alternative to paragraph (~~e~~f)(3)(i)(A) of this section, a bank holding company may ~~submit a written~~ request ~~to~~an informal hearing on the ~~Board~~objection.

(ii) Request for ~~a~~an informal hearing. ~~Any~~

(A) A request for an informal hearing shall ~~follow~~be in writing and shall be submitted within 15 days of a notice of an objection. The Board may, in its sole discretion, order an informal hearing if the ~~procedures described in paragraph (f)(5)(ii) through (iii)~~Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within 30 days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than those capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(4) Application of this section to other bank holding companies. The Board may apply this section, in whole or in part, to any other bank holding company by order based on the institution's size, level of complexity, risk profile, scope of operations, or financial condition.

(~~f~~g) Approval requirements for certain capital actions. (1) Circumstances requiring approval. Notwithstanding a notice of non-objection under paragraph (e)(2)(i) of this section, a bank holding company may not make a capital distribution (excluding any capital distribution arising from the issuance of a debt or equity capital instrument that is eligible for inclusion in the numerator of a minimum regulatory capital ratio) under the following circumstances, unless it receives prior approval from the Board or appropriate Reserve Bank pursuant to paragraph (~~f~~g)(4) of this section:

(i) After giving effect to the capital distribution, the bank holding company would not meet a minimum regulatory capital ratio or a tier 1 common ratio of at least 5 percent;

(ii) The Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, notifies the company in writing that the Federal Reserve has determined that the capital distribution would result in a material adverse change to the organization's capital or liquidity structure or that the company's earnings were materially underperforming projections;

(iii) Except as provided in paragraph (~~f~~g)(2) of this section, the dollar amount of the capital distribution in a given calendar quarter, will exceed the amount described in the capital plan for that quarter for which a non-objection was issued under this section; or

(iv) The capital distribution would occur after the occurrence of an event requiring resubmission under paragraphs (~~d~~g)(4)(i)(A) ~~and (d)(4)(i)(C~~or (B) of this section and before the Federal Reserve has acted on the resubmitted capital plan.

(2) Exception for well capitalized bank holding companies. (i) A bank holding company may make a capital distribution for which the dollar amount exceeds the amount described in the capital plan for which a non-objection was issued under this section if the following conditions are satisfied:

(A) The bank holding company is, and after the capital distribution would remain, well capitalized as defined in § 225.2(r) of Regulation Y (12 CFR 225.2(r));

(B) The bank holding company's performance and capital levels are, and after the capital distribution would remain, consistent with its projections under expected conditions as set forth in its capital plan under ~~this~~ paragraph (~~d~~e)(2)(i~~);~~) of this section;

(C) The annual aggregate dollar amount of all capital distributions (for purposes of the capital plan cycle beginning ~~on~~October 1, 2014, in the period beginning April 1, 2015 and ending on March 31, 2016, and for purposes of each capital plan cycle beginning thereafter, in the period beginning July 1 of a calendar year and ending on ~~March 31~~June 30 of the following calendar year) would not exceed the total amounts described in the company's capital plan for which the bank holding company received a notice of non-objection by more than 1.00 percent multiplied by the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's first quarter FR Y-9C;

(D) The bank holding company provides the appropriate Reserve Bank with notice 15 calendar days prior to a capital distribution that includes the elements described in paragraph (~~f~~g)(3) of this section; and

(E) The Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank~~, with concurrence of the Board,~~ shall apply the criteria described in paragraph (~~f~~g)(4)(iv) of this section.

(ii) The exception in this paragraph (~~f~~g)(2) shall not apply if the Board or the appropriate Reserve Bank notifies the bank holding company in writing that it may not take advantage of this exception.

(3) Contents of request. (i) A request for a capital distribution under this section shall be filed with the appropriate Reserve Bank and the Board and shall contain the following information:

(A) The bank holding company's current capital plan or an attestation that there have been no changes to the capital plan since it was last submitted to the Federal Reserve;

(B) The purpose of the transaction;

(C) A description of the capital distribution, including for redemptions or repurchases of securities, the gross consideration to be paid and the terms and sources of funding for the transaction, and for dividends, the amount of the dividend(s); and

(D) Any additional information requested by the Board or the appropriate Reserve Bank (which may include, among other things, an assessment of the bank holding company's capital adequacy under a revised stress scenario provided by the Federal Reserve, a revised capital plan, and supporting data).

(ii) Any request submitted with respect to a capital distribution described in paragraph (~~f~~g)(1)(i) of this section shall also include a plan for restoring the bank holding company's capital to an amount above a minimum level within 30 days and a rationale for why the capital distribution would be appropriate.

(4) Approval of certain capital distributions.~~ (i) A bank holding company must obtain approval from the Board or the appropriate Reserve Bank, with concurrence of the Board, before making a capital distribution described in paragraph (f)(1) of this section.~~

~~(ii) A request for a capital distribution under this section must be filed with the appropriate Reserve Bank and contain all the information set forth in paragraph (f)(3) of this section.~~

(~~iii~~i) The Board or the appropriate Reserve Bank~~,~~ with concurrence of the Board, will act on a request under this paragraph (~~f~~g)(4) within 30 calendar days after the receipt of ~~a complete request~~all the information required under paragraph (~~f)(4)(ii~~g)(3) of this section~~. The Board or the appropriate Reserve Bank may, at any time, request additional information that it believes is necessary for its decision~~.

(~~iv~~ii) In acting on a request under this paragraph, the Board or appropriate Reserve Bank will apply the considerations and principles in paragraph (~~e~~f) of this section. In addition, the Board or the appropriate Reserve Bank may disapprove the transaction if the bank holding company does not provide all of the information required to be submitted under ~~paragraphs (f)(3) and (f)(5)(iii~~paragraph (g)(3) of this section.

(5) Disapproval and hearing. (i) The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to disapprove any proposed capital distribution. Within ~~10~~15 calendar days after receipt of a disapproval by the Board, the bank holding company may submit a written request for a hearing.

(~~ii~~A) The Board ~~will~~may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within ~~10 calendar~~30 days of ~~receipt of the~~a request ~~if it finds that material facts are in dispute, or~~, if ~~it otherwise appears appropriate. Any hearing conducted under~~granted, provided that the Board may extend this ~~paragraph shall be held in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR part 263).~~

~~(iii) At~~period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 days of the conclusion of ~~the~~any informal hearing~~,~~ ordered by the Board, provided that the Board ~~will by order approve or disapprove~~may extend this period upon notice to the ~~proposed~~requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, approves the capital distribution ~~on the basis of the record of the hearing~~at issue, the bank holding company may not make such capital distribution.

12 C.F.R. 252 (Regulation YY)

Subpart B—Company-Run Stress Test Requirements for Certain U.S. Banking Organizations with Total Consolidated Assets Over $10 Billion and Less than $50 Billion

§ 252.11 Authority and purpose.

(a) Authority. 12 U.S.C. 321-338a, 1467a(g), 1818, 1831o, 1831p-1, 1844(b), 1844(c), 3906-3909, 5365.

(b) Purpose. This subpart implements section 165(i)(2) of the Dodd-Frank Act (12 U.S.C. 5365(i)(2)), which requires a bank holding company with total consolidated assets of greater than $10 billion but less than $50 billion and savings and loan holding companies and state member banks with total consolidated assets of greater than $10 billion to conduct annual stress tests. This subpart also establishes definitions of stress test and related terms, methodologies for conducting stress tests, and reporting and disclosure requirements.

§ 252.12 Definitions.

For purposes of this subpart, the following definitions apply:

(a) Advanced approaches means the regulatory capital requirements at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

(b) Adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank that are more adverse than those associated with the baseline scenario and may include trading or other additional components.

(c) Asset threshold means:

(1) For a bank holding company, average total consolidated assets of greater than $10 billion but less than $50 billion, and

(2) For a savings and loan holding company or state member bank, average total consolidated assets of greater than $10 billion.

(d) Average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company, savings and loan holding company, or state member bank on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) or Consolidated Report of Condition and Income (Call Report), as applicable, for the four most recent consecutive quarters. If the bank holding company, savings and loan holding company, or state member bank has not filed the FR Y-9C or Call Report, as applicable, for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y–9C or Call Report, as applicable, for the most recent quarter or consecutive quarters. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C or Call Report, as applicable, used in the calculation of the average.

(e) Bank holding company has the same meaning as in § 225.2(c) of the Board's Regulation Y (12 CFR 225.2(c)).

(f) Baseline scenario means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank, and that reflect the consensus views of the economic and financial outlook.

(g) Capital action has the same meaning as in § 225.8(c)(2) of the Board's Regulation Y (12 CFR 225.8(c)(2)).

(h) Covered company subsidiary means a state member bank that is a subsidiary of a covered company as defined in subpart F of this part.

(i) Depository institution has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)).

(j) Foreign banking organization has the same meaning as in § 211.21(o) of the Board's Regulation K (12 CFR 211.21(o)).

(k) Planning horizon means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle ~~(on October 1)~~ over which the relevant projections extend.

(l) Pre-provision net revenue means the sum of net interest income and non-interest income less expenses before adjusting for loss provisions.

(m) Provision for loan and lease losses means the provision for loan and lease losses as reported by the bank holding company, savings and loan holding company, or state member bank on the FR Y-9C or Call Report, as appropriate.

(n) Regulatory capital ratio means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, a company's tier 1 and supplementary leverage ratio and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under the Board's regulations, including appendices A, D, and E to 12 CFR part 225, appendices A, B, and E to 12 CFR part 208, and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation. For state member banks other than covered company subsidiaries and for all bank holding companies, for the stress test cycle that commences on October 1, 2013, regulatory capital ratios must be calculated pursuant to the regulatory capital framework set forth in 12 CFR part 225, appendix A, and not the regulatory capital framework set forth in 12 CFR part 217.

(o) Savings and loan holding company has the same meaning as in § 238.2(m) of the Board's Regulation LL (12 CFR 238.2(m)).

(p) Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank that the Board annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

(q) Severely adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

(r) State member bank has the same meaning as in § 208.2(g) of the Board's Regulation H (12 CFR 208.2(g)).

(s) Stress test means a process to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a bank holding company, savings and loan holding company, or state member bank over the planning horizon, taking into account the current condition, risks, exposures, strategies, and activities.

(t) Stress test cycle means ~~the period between October 1 of a calendar year and September 30 of the following calendar year.~~:

(i) Until September 30, 2015, the period beginning October 1 of a calendar year and ending on September 30 of the following calendar year, and

(ii) Beginning October 1, 2015, the period beginning January 1 of a calendar year and ending on December 31 of that year.

(u) Subsidiary has the same meaning as in § 225.2(o) the Board's Regulation Y (12 CFR 225.2(o)).

§ 252.13 Applicability.

(a) ~~*Compliance date for bank holding companies and state member banks that meet the asset threshold on or before December 31, 2012.*~~Scope. (1) ~~*Bank holding companies—(i) In general.*~~Applicability. Except as provided in paragraph (~~a)(1)(ii~~b) of this section, ~~a~~this subpart applies to:

(i) Any bank holding company ~~that meets the asset threshold on or before December 31, 2012, must comply~~ with ~~the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2013, unless that time is extended by the Board in writing.~~[1]average total consolidated assets (as defined in § 252.12(d)) of greater than $10 billion but less than $50 billion;

~~[1] *See* §252.12(e).~~

~~(ii) *SR Letter 01-01*. 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 SR 01-01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2015, unless that time is extended by the Board in writing.~~

~~(2)~~(ii) Any savings and loan holding company with average total consolidated assets (as defined in § 252.12(d)) of greater than $10 billion; and

(iii) Any state member ~~*banks*.~~bank with average total consolidated assets (as defined in § 252.12(d)) of greater than $10 billion.

(2) Ongoing applicability. (i) A bank holding company, savings and loan holding company, or state member bank ~~that meets the asset threshold as of November 15, 2012, and is a subsidiary of a bank holding company that participated in the 2009 Supervisory Capital Assessment Program, or a~~(including any successor ~~to such bank holding company, must comply with the requirements of this subpart beginning with the stress test cycle that commences on November 15, 2012, unless that time is extended by the Board in writing.~~

~~(ii) A state member bank that meets the asset threshold on or before December 31, 2012, and is not described in paragraph (a)(2)(i) of this section must comply with the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2013, unless that time is extended by the Board in writing.[2]~~

~~[2] *See* §252.12(e).~~

~~(b) *Compliance date for bank holding companies and state member banks that meet the asset threshold after December 31, 2012*. A bank holding~~ company ~~or state member bank that meets the asset threshold after December 31, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the company meets the asset threshold, unless that time is extended by the Board in writing.~~

~~(c) *Compliance date for savings and loan holding companies*. (1) A savings and loan holding company that meets the asset threshold on or before the date on which it~~) that is subject to ~~minimum regulatory capital requirements must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the company becomes subject to the Board's minimum regulatory capital requirements, unless the Board accelerates or extends the compliance date.~~

~~(2) A savings and loan holding company that meets the asset threshold after the date on which it is subject to minimum regulatory capital requirements must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the company becomes subject to the Board's minimum regulatory capital requirements, unless that time is extended by the Board in writing.~~

~~(d) *Ongoing application.* A bank holding company, savings and loan holding company, or state member bank that meets the asset threshold will~~any requirement in subpart shall remain subject to the ~~requirements of this subpart~~requirement unless and until its total consolidated assets fall below $10 billion for each of four consecutive quarters, as reported on the FR Y-9C or Call Report, as applicable~~. The calculation will be~~ and effective on the as-of date of the fourth consecutive FR Y-9C or Call Report, as applicable.

~~(e) *Interaction with 12 CFR part 252, subpart F.* Notwithstanding paragraph (d) of this section,~~(ii) A bank holding company or savings and loan holding company that becomes a covered company as defined in subpart F of this part and conducts a stress test pursuant to that subpart is not subject to the requirements of this subpart.

(~~f)~~b) Transitional arrangements. (1) Transition periods for bank holding companies and state member banks. (i) A bank holding company or state member bank that exceeds the asset threshold for the first time after October 1, 2014, but on or before March 31 of a given year, must comply with the requirements of this subpart beginning on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A bank holding company or state member bank that exceeds the asset threshold for the first time after October 1, 2014, and after March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the second year following that given year, unless that time is extended by the Board in writing.

(iii) Bank holding companies that rely on SR Letter 01-01. Notwithstanding paragraphs (b)(1)(i) or (ii), a bank holding company that meets the asset threshold (as defined in § 252.12(c)) and that is relying as of July 20, 2015, on Supervision and Regulation Letter SR 01–01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning on January 1, 2016, unless that time is extended by the Board in writing.

(2) Transition period for savings and loan holding companies. (i) A savings and loan holding company that is subject to minimum regulatory capital requirements and exceeds the asset threshold for the first time after October 1, 2014, but on or before March 31 of a given year, must comply with the requirements of this subpart beginning on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A savings and loan holding company that is subject to minimum regulatory capital requirements and exceeds the asset threshold for the first time after October 1, 2014, and after March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the second year following that given year, unless that time is extended by the Board in writing.

(3) Transition periods for companies subject to the advanced approaches. Notwithstanding any other requirement in this section~~, for a given stress test cycle~~:

(~~1) Until October 1, 2015,~~i) A bank holding company, savings and loan holding company, or state member ~~bank's estimates of~~bank must use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 252, subpart D and E, as applicable, to estimate its pro forma regulatory capital ratios ~~over the planning horizon shall~~and its pro forma tier 1 common ratio for the stress test cycle beginning October 1, 2014, and may not ~~include estimates using~~use the advanced approaches until January 1, 2016; and

(~~2~~ii) Beginning ~~October~~January 1, ~~2015~~2016, a bank holding company, savings and loan holding company, or state member ~~bank's estimates of~~bank must use the advanced approaches to estimate its pro forma regulatory capital ratios ~~over the planning horizon shall not include estimates using the advanced approaches~~ and its pro forma tier 1 common ratio for purposes of its stress test under § 252.14 if the Board notifies the company ~~is notified on or after~~before the first day of ~~that~~the stress test cycle ~~(October 1)~~ that ~~it~~the company is required to ~~calculate~~use the advanced approaches to determine its risk-based capital requirements ~~using the advanced approaches~~.

~~§~~§ 252.14 Annual stress test.

(a) General requirements. (1) General. A savings and loan holding ~~*companies*~~company, bank holding company, and state member bank must conduct an annual stress test in accordance with paragraphs (a)(2) through (3) of this section.

(2) Timing for the stress test cycle beginning October 1, 2014. For the stress test cycle beginning October 1, 2014:

(i) A state member bank that is a covered company subsidiary must conduct its stress test by January 5, 2015, based on data as of September 30, 2014, unless the time or the as-of date is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary and a bank holding company must conduct its stress test by March 31, 2015 based on data as of September 30, 2014, unless the time or the as-of date is extended by the Board in writing.

(2) Timing for each stress test cycle beginning after October 1, 2014. For each stress test cycle beginning after October 1, 2014:

(i) A state member bank that is a covered company subsidiary and a savings and loan holding company with average total consolidated assets of $50 billion or more ~~*and state member banks that are covered company subsidiaries.*~~ ~~A savings and loan holding company with average total consolidated assets of $50 billion or more or a state member bank that is a covered company subsidiary or must conduct a stress test by January 5~~must conduct its stress test by April 5 of each calendar year based on data as of ~~September 30~~December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing~~.~~; and

(~~2)~~ ~~*Bank holding companies, savings and loan holding companies with total consolidated assets of less than $50 billion, and*~~ii) A state member ~~*banks*~~bank that ~~*are*~~is not a covered company

~~*subsidiaries*. Except as provided in paragraph (a)(1),~~subsidiary, a bank holding company, and a savings and loan holding company~~, or state member bank~~ with average total consolidated assets of less than $50 billion must conduct ~~a~~its stress test by ~~March~~July 31 of each calendar year using financial statement data as of ~~September 30~~December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) Scenarios provided by the Board. (1) In general. In conducting a stress test under this section, a bank holding company, savings and loan holding company, or state member bank must, at a minimum, use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, the Board will provide a description of the scenarios to each bank holding company, savings and loan holding company, or state member bank no later than November 15~~ of that calendar year.~~, 2014 (for the stress test cycle beginning October 1, 2014) and no later than February 15 of that calendar year (for each stress test cycle beginning thereafter).

(2) Additional components. (i) The Board may require a bank holding company, savings and loan holding company, or state member bank with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y-14), to include a trading and counterparty component in its adverse and severely adverse scenarios in the stress test required by this section. The Board may also require a state member bank that is subject to 12 CFR part 208, appendix E ~~and~~(or, beginning January 1, 2015, 12 CFR 217, subpart F) or that is a subsidiary of a bank holding company that is subject to either this paragraph ~~(b)(2)(i) of this section~~ or § 252.54(b)(2)(i) to include a trading and counterparty component in the state member ~~bank's~~bank's adverse and severely adverse scenarios in the stress test required by this section. For the stress test cycle beginning October 1, 2014, the data used in this component ~~will~~must be as of a date between October 1 and December 1 of ~~that calendar year~~2014 selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than December 1 of the calendar year. For each stress test cycle beginning thereafter, the data used in this component must be as of a date between January 1 and March 1 of that calendar year selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than March 1 of that calendar year.

(ii) The Board may require a bank holding company, savings and loan holding company, or state member bank to include one or more additional components in its adverse and severely adverse scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(3) Additional scenarios. The Board may require a bank holding company, savings and loan holding company, or state member bank to include one or more additional scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(4) Notice and response.

(i) Notification of additional component. If the Board requires a bank holding company, savings and loan holding company, or state member bank to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2~~)(ii~~) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing ~~no later than September 30. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).~~by September 30, 2014 (for the stress test cycle beginning October 1, 2014) and by December 31 (for each stress test cycle beginning thereafter).

(ii) Request for reconsideration and Board response. Within 14 calendar days of receipt of a notification under this paragraph, the bank holding company, savings and loan holding company, or state member bank may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request.

(iii) Description of component. The Board will provide the bank holding company, savings and loan holding company, or state member bank with a description of any additional component(s) or additional scenario(s) by December 1~~.~~, 2014 (for the stress test cycle beginning October 1, 2014) and by March 1 (for each stress test cycle beginning thereafter).

~~§~~§ 252.15 Methodologies and practices.

(a) Potential impact on capital. In conducting a stress test under § 252.14, for each quarter of the planning horizon, a bank holding company, savings and loan holding company, or state member bank must estimate the following for each scenario required to be used:

(1) Losses, pre-provision net revenue, provision for loan and lease losses, and net income; and

(2) The potential impact on pro forma regulatory capital levels and pro forma capital ratios (including regulatory capital ratios and any other capital ratios specified by the Board), incorporating the effects of any capital actions over the planning horizon and maintenance of an allowance for loan losses appropriate for credit exposures throughout the planning horizon.

(b) Assumptions regarding capital actions. In conducting a stress test under § 252.14, a bank holding company or savings and loan holding company is required to make the following assumptions regarding its capital actions over the planning horizon—

(1) For the first quarter of the planning horizon, the bank holding company or savings and loan holding company must take into account its actual capital actions as of the end of that quarter; and

(2) For each of the second through ninth quarters of the planning horizon, the bank holding company or savings and loan holding company must include in the projections of capital~~—~~:

(i) Common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters);

(ii) Payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter;~~ and~~

(iii) An assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and

(iv) An assumption of no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation.

(c) Controls and oversight of stress testing processes. (1) In general. The senior management of a bank holding company, savings and loan holding company, or state member bank must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in this subpart. These policies and procedures must, at a minimum, describe the company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance.

(2) Oversight of stress testing processes. The board of directors, or a committee thereof, of a bank holding company, savings and loan holding company, or state member bank must review and approve~~ and review~~ the policies and procedures of the stress testing processes as frequently as economic conditions or the condition of the company may warrant, but no less than annually. The board of directors and senior management of the bank holding company, savings and loan holding company, or state member bank must receive a summary of the results of the stress test conducted under this section.

(3) Role of stress testing results. The board of directors and senior management of a bank holding company, savings and loan holding company, or state member bank must consider the results of the stress test in the normal course of business, including but not limited to, the banking organization's capital planning, assessment of capital adequacy, and risk management practices.

~~§~~§ 252.16 Reports of stress test results.

(a) Reports to the Board of stress test results. (1) General. A savings and loan holding ~~*companies with average total consolidated assets of $50 billion or more*~~company, bank holding company, and state member ~~*banks that are covered company subsidiaries.* A savings and loan holding company with average total consolidated assets of $50 billion or more or a state member bank that is a covered company subsidiary must report the results of~~ bank must report the results of the stress test to the Board ~~by January 5 of each calendar year~~ in the manner and form prescribed by the Board, in accordance with paragraphs (a)(2) through (3) of this section.

(2) Timing for the stress test cycle beginning October 1, 2014. For the stress test cycle beginning October 1, 2014:

(i) A state member bank that is a covered company subsidiary must report the results of its stress test to the Board by January 5, 2015, unless that time is extended by the Board in writing~~.~~; and

~~(2) *Bank holding companies, savings and loan holding companies, and*~~ (ii) A state member ~~*banks*. Except as provided in paragraph (~~bank that is not a~~)(1) of this section,~~ covered company subsidiary and a bank holding company~~, savings and loan holding company, or state member bank~~ must report the results of ~~the~~its stress test to the Board by March 31 ~~of each calendar year in the manner and form prescribed by the Board~~, 2015, unless that time is extended by the Board in writing.

(3) Timing for each stress test cycle beginning after October 1, 2014. For each stress test cycle beginning after October 1, 2014:

(i) A state member bank that is a covered company subsidiary and a savings and loan holding company that has average total consolidated assets of $50 billion or more must report the results of the stress test to the Board by April 5, unless that time is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than $50 billion must report the results of the stress test to the Board by July 31, unless that time is extended by the Board in writing.

(b) Contents of reports. The report required under paragraph (a) of this section must include~~, under~~ the following information for the baseline scenario, adverse scenario, severely adverse scenario, and any other scenario required under § 252.14(b)(3~~),~~):

(1) A description of the types of risks being included in the stress test;

(2) A summary description of the methodologies used in the stress test; and~~,~~

(3) For each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and regulatory capital ratios~~. In addition, the report must include an explanation of the most significant causes for the changes in regulatory capital ratios and any other information required by the Board. This paragraph will remain applicable until such time as the Board issues a reporting form to collect the results of the stress test required under §252.14.~~;

(~~c) *Confidential treatment*~~4) An explanation of the most significant causes for the changes in regulatory capital ratios; and

(5) Any other information required by the Board.

(c) Confidential treatment of information submitted. ~~*submitted.*~~ The confidentiality of information submitted to the Board under this subpart and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

~~§~~§ 252.17 Disclosure of stress test results.

(a) Public disclosure of results. ~~(1) *In general.* (i) Except as provided in paragraph (a)(1)(ii) or (b)(2) of this section,~~(1) General. (i) A bank holding company, savings and loan holding company, ~~or~~and state member bank must publicly disclose a summary of the results of the stress test required under this subpart.

(2) Timing for the stress test cycle beginning October 1, 2014. For the stress test cycle beginning October 1, 2014:

(i) A state member bank that is a covered company subsidiary must publicly disclose a summary of the results of the stress test within 15 days after the Board discloses the results of its supervisory stress test of the covered company pursuant to § 252.46(c), unless that time is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary and a bank holding company must publicly disclose a summary of the results of the stress test in the period beginning ~~on~~ June 15 and ending ~~on~~ June 30, 2015, unless that time is extended by the Board in writing~~.~~

~~(ii) Except as provided in paragraph (b)(2) of this section,~~(3) Timing for each stress test cycle beginning after October 1, 2014. For each stress test cycle beginning after October 1, 2014:

(i) A state member bank that is a covered company subsidiary ~~or~~must publicly disclose a summary of the results of the stress test within 15 days after the Board discloses the results of its supervisory stress test of the covered company pursuant to § 252.46(c), unless that time is extended by the Board in writing;

(ii) A savings and loan holding company with average total consolidated assets of $50 billion or more must publicly disclose a summary of the results of the stress test in the period beginning ~~on March~~June 15 and ending ~~on March~~June 30, unless that time is extended by the Board in writing; and

(iii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than $50 billion must publicly disclose a summary of the results of the stress test in the period beginning October 15 and ending October 31, unless that time is extended by the Board in writing.

~~(2) *Initial disclosure*. A bank holding company, savings and loan holding company, or state member bank that has total consolidated assets of less than $50 billion on or before December 31, 2012, must comply with the requirements of this section beginning with the stress test cycle commencing on October 1, 2014.~~

(3) Disclosure method. The summary required under this section may be disclosed on the ~~Web site~~website of a bank holding company, savings and loan holding company, or state member bank, or in any other forum that is reasonably accessible to the public.

(b) Summary of results. (1) Bank holding companies and savings and loan holding companies. The summary of the results of a bank holding company or savings and loan holding company must ~~disclose~~, at a minimum, contain the following information regarding the severely adverse scenario:

(i) A description of the types of risks included in the stress test;

(ii) A summary description of the methodologies used in the stress test;

(iii) Estimates of—

(A) Aggregate losses;

(B) Pre-provision net revenue;

(C) Provision for loan and lease losses;

(D) Net income; and

(E) Pro forma regulatory capital ratios and any other capital ratios specified by the Board;

(iv) An explanation of the most significant causes for the changes in regulatory capital ratios; and

(v) With respect to ~~a stress test conducted by an insured~~ any depository institution subsidiary ~~of the bank holding company or savings and loan holding company~~that is subject to stress testing requirements pursuant to ~~section 165~~12 U.S.C. 5365(i)(2~~) of the Dodd-Frank Wall Street Reform and Consumer Protection Act,~~), as implemented by this subpart, 12 CFR part 46 (OCC), or 12 CFR part 325, subpart C (FDIC), changes over the planning horizon in regulatory capital ratios and any other capital ratios specified by the Board ~~of the depository institution subsidiary over the planning horizon, including~~and an explanation of the most significant causes for the changes in regulatory capital ratios.

(2) State member banks that are subsidiaries of bank holding companies. A state member bank that is a subsidiary of a bank holding company ~~will satisfy~~satisfies the public disclosure requirements under ~~section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act when~~this subpart if the bank holding company publicly discloses summary results

of its stress test pursuant to this section or § 252.58, unless the Board determines that the disclosures at the holding company level do not adequately capture the potential impact of the scenarios on the capital of the state member bank~~. In this case,~~ and requires the state member bank ~~must~~to make ~~the same disclosure as required by paragraph (b)(3) of this section~~public disclosures.

(3) State member banks that are not subsidiaries of bank holding companies. A state member bank that is not a subsidiary of a bank holding company ~~must~~or that is required to make disclosures under paragraph (b)(2) of this section must publicly disclose, at a minimum, the following information regarding the severely adverse scenario:

(i) A description of the types of risks being included in the stress test;

(ii) A summary description of the methodologies used in the stress test;

(iii) Estimates of—

(A) Aggregate losses;

(B) Pre-provision net revenue

(C) Provision for loan and lease losses;

(D) Net income; and

(E) Pro forma regulatory capital ratios and any other capital ratios specified by the Board; and

(iv) An explanation of the most significant causes for the changes in regulatory capital ratios.

(c) Content of results. (1) The disclosure of aggregate losses, pre-provision net revenue, provision for loan and lease losses, and net income that is required under paragraph (b) of this section must be on a cumulative basis over the planning horizon.

(2) The disclosure of pro forma regulatory capital ratios and any other capital ratios specified by the Board that is required under paragraph (b) of this section must include the beginning value, ending value and minimum value of each ratio over the planning horizon.

Subpart E—Supervisory Stress Test Requirements for U.S. Bank Holding Companies With $50 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board

§ 252.41 Authority and purpose.

(a) Authority. 12 U.S.C. 321-338a, 1467a(g), 1818, 1831p-1, 1844(b), 1844(c), 5361, 5365, 5366.

(b) Purpose. This subpart implements section 165(i)(1) of the Dodd-Frank Act (12 U.S.C. 5365(i)(1)), which requires the Board to conduct annual analyses of nonbank financial companies supervised by the Board and bank holding companies with $50 billion or more in total consolidated assets to evaluate whether such companies have the capital, on a total consolidated basis, necessary to absorb losses as a result of adverse economic conditions.

§ 252.42 Definitions.

For purposes of this subpart F, the following definitions apply:

(a) Advanced approaches means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

(b) Adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered company that are more adverse than those associated with the baseline scenario and may include trading or other additional components.

(c) Average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y~~-~~-9C, for the most recent quarter or consecutive quarters. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average.

(d) Bank holding company has the same meaning as in §225.2(c) of the Board's Regulation Y (12 CFR 225.2(c)).

(e) Baseline scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered company and that reflect the consensus views of the economic and financial outlook.

(f) Covered company means:

(1) A bank holding company (other than a foreign banking organization) with average total consolidated assets of $50 billion or more;~~ and~~

~~(2~~(2) A U.S. intermediate holding company subject to this section pursuant to § 252.153; and

(3) A nonbank financial company supervised by the Board.

(g) Depository institution has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)).

(h) Foreign banking organization has the same meaning as in § 211.21(o) of the Board's Regulation K (12 CFR 211.21(o)).

(i) Nonbank financial company supervised by the Board means a nonbank financial company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(j) Planning horizon means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle ~~(on October 1)~~ over which the relevant projections extend.

(k) Pre-provision net revenue means the sum of net interest income and non-interest income less expenses before adjusting for loss provisions.

(l) Provision for loan and lease losses means the provision for loan and lease losses as reported by the covered company on the FR Y-~~-~~9C.

(m) Regulatory capital ratio means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, the company's tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part 225) and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation.

(n) Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board annually determines are appropriate for use in the supervisory stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

(o) Severely adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered company and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

(p) Stress test cycle means ~~the period between October 1 of a calendar year and September 30 of the following calendar year.~~:

(i) Until September 30, 2015, the period beginning October 1 of a calendar year and ending on September 30 of the following calendar year, and

(ii) Beginning October 1, 2015, the period beginning January 1 of a calendar year and ending on December 31 of that year.

(q) Subsidiary has the same meaning as in § 225.2(o) the Board's Regulation Y (12 CFR 225.2).

(r) Tier 1 common ratio has the same meaning as in the Board's Regulation Y (12 CFR 225.8).

~~§~~§ 252.43 Applicability.

~~(a) *Compliance date for bank holding companies that are covered companies as of November 15, 2012.* (1) *In general.*~~(a) Scope. (1) Applicability. Except as provided in paragraph (~~a)(2) or (a)(3~~b) of this section, ~~a bank holding~~ this subpart applies to any covered company ~~that is a covered~~ , which includes:

(i) Any bank holding company ~~as of November 15, 2012,~~with average total consolidated assets (as defined in § 252.42(c)) of $50 billion or more;

(ii) Any U.S. intermediate holding company subject to this section pursuant to § 252.153; and

(iii) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) Ongoing applicability. A bank holding company (including any successor company) that is subject to any requirement in subpart shall remain subject to the requirement unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(b) Transitional arrangements. (1) Transition periods for bank holding companies that become covered companies after October 1, 2014. (i) A bank holding company that becomes a covered company after October 1, 2014, but on or before March 31 of a given year must comply with the requirements of this subpart beginning ~~with the stress test cycle that commences on October 1, 2013~~on January 1 of the following year, unless that time is extended by the Board in writing.

(~~2) *2009 Supervisory Capital Assessment Program.*~~ii) A bank holding company that ~~participated in the 2009 Supervisory Capital Assessment Program, or~~becomes a ~~successor to such a bank holding~~covered company~~,~~ after October 1, 2014, and after March 31 of a given year must comply with the requirements of this subpart beginning ~~with~~on January 1 of the ~~stress test cycle~~second year following that ~~commences on November 15, 2012~~given year, unless that time is extended by the Board in writing.

~~(3)~~(2) Bank holding companies that rely on SR Letter 01-01. ~~A U.S.-domiciled bank holding company that is~~ A covered company ~~as of November 15, 2012, and~~ that is ~~a subsidiary of a foreign banking organization that is currently~~ relying as of July 20, 2015, on Supervision and Regulation Letter SR 01~~-~~–01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning ~~with the stress test cycle that commences on October 1, 2015~~January 1, 2016, unless that time is extended by the Board in writing.

~~(b) *Compliance date for institutions that become covered companies after November 15, 2012.* (1) *Bank holding companies.* A bank holding company that becomes a covered company after November 15, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the bank holding company becomes a covered company, unless that time is extended by the Board in writing.~~

~~(2~~ (3) Nonbank financial companies supervised by the Board. ~~A company that becomes~~ (i) The Board will apply this subpart to a nonbank financial company by rule or order.

(ii) If the Board issues the rule or order described in paragraph (b)(3)(i) of this section on or before March 31 of a given year, the nonbank financial company supervised by the Board ~~must~~ will be required to comply with the requirements of this subpart on January 1 of the following year, unless that time is accelerated or extended by the Board in writing.

(iii) If the Board issues the rule or order described in paragraph (b)(3)(i) of this section after March 31 of a given year, the nonbank financial company supervised by the Board will be required to comply with the requirements of this subpart ~~beginning with the stress test cycle that commences in the calendar year after the~~ on January 1 of the second year ~~in which the company first becomes subject to the Board's minimum regulatory capital requirements~~following that given year, unless that time is accelerated or extended by the Board ~~accelerates or extends the compliance date~~in writing.

(c) ~~*Ongoing application.* A bank holding company that is a covered company will remain subject to the requirements of this subpart unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C. The calculation will be effective on the as-of date of the fourth consecutive FR Y-9C.~~

~~(d)~~ Transition periods for covered companies subject to the advanced approaches. Notwithstanding any other requirement in this section, for a given stress test cycle:

(1) ~~Until October 1, 2015, the Board's analysis~~The Board will use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 252, subpart D and E, as applicable, to estimate a covered ~~company's~~company's pro forma regulatory capital ~~in a given~~ ratios and its pro forma tier 1 common ratio for the stress test cycle beginning October 1, 2014 and will not ~~include estimates using~~use the advanced approaches until January 1, 2016; and

(2) Beginning ~~October 1, 2015, the Board's analysis of a covered company's capital in a given stress test cycle will not include estimates using~~January 1, 2016, the Board will use the advanced approaches to estimate a covered company's pro forma regulatory capital ratios and pro forma tier 1 common ratio if the ~~covered company is~~ Board notified ~~on or after~~the covered company before the first day of ~~that~~the stress test cycle ~~(October 1)~~ that the covered company is required

to ~~calculate~~use the advanced approaches to determine its risk-based capital requirements ~~using the advanced approaches~~.

~~§~~§ 252.44 Annual analysis conducted by the Board.

(a) In general. (1) On an annual basis, the Board will conduct an analysis of each covered company's capital, on a total consolidated basis, taking into account all relevant exposures and activities of that covered company, to evaluate the ability of the covered company to absorb losses in specified economic and financial conditions.

(2) The analysis will include an assessment of the projected losses, net income, and pro forma capital levels and regulatory capital ratios, tier 1 common ratio, and other capital ratios for the covered company and use such analytical techniques that the Board determines are appropriate to identify, measure, and monitor risks of the covered company that may affect the financial stability of the United States.

(3) In conducting the analyses, the Board will coordinate with the appropriate primary financial regulatory agencies and the Federal Insurance Office, as appropriate.

(b) Economic and financial scenarios related to the Board's analysis. The Board will conduct its analysis under this section using a minimum of three different scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario. For the stress test cycle beginning October 1, 2014, the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than November 15 ~~of each year~~, 2014, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than December 1, 2014. For each stress test cycle beginning thereafter, the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than February 15 of each year, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than March 1 of that year.

~~§~~§ 252.45 Data and information required to be submitted in support of the Board's analyses.

(a) Regular submissions. Each covered company must submit to the Board such data, on a consolidated basis, that the Board determines is necessary in order for the Board to derive the relevant pro forma estimates of the covered company over the planning horizon under the scenarios described in §252.44(b).

(b) Additional submissions required by the Board. The Board may require a covered company to submit any other information on a consolidated basis that the Board deems necessary in order to:

(1) Ensure that the Board has sufficient information to conduct its analysis under this subpart; and

(2) Project a company's pre-provision net revenue, losses, provision for loan and lease losses, and net income; and, pro forma capital levels, regulatory capital ratios, tier 1 common ratio, and any other capital ratio specified by the Board under the scenarios described in § 252.44(b).

(c) Confidential treatment of information submitted. ~~(c) Confidential treatment of information submitted.~~ The confidentiality of information submitted to the Board under this subpart and related materials shall be determined in accordance with the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

§ 252.46 Review of the Board's analysis; publication of summary results.

(a) Review of results. Based on the results of the analysis conducted under this subpart, the Board will conduct an evaluation to determine whether the covered company has the capital, on a total consolidated basis, necessary to absorb losses and continue its operation by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary under baseline, adverse and severely adverse scenarios, and any additional scenarios.

(b) ~~*Communication of results to covered companies.* The Board will convey to a covered company a summary of the results of the Board's analyses of such covered company within a reasonable period of time, but no later than March 31.~~

~~(c)~~ Publication of results by the Board. ~~By March 31 of each calendar year,~~ (1) The Board will publicly disclose a summary of the results of the ~~Board's~~ Board's analyses of a covered company~~.~~ by March 31, 2015 (for the stress test cycle beginning October 1, 2014) and by June 30 (for each stress test cycle beginning thereafter).

(2) The Board will notify companies of the date on which it expects to publicly disclose a summary of the Board's analyses pursuant to paragraph (b)(1) of this section at least 14 calendar days prior to the expected disclosure date.

§ 252.47 Corporate use of stress test results.

(a) In general. The board of directors and senior management of each covered company must consider the results of the analysis conducted by the Board under this subpart, as appropriate:

~~**§252.47 Use requirement.**~~

~~(a) In general. The board of directors and senior management of each covered company must consider the results of the analysis conducted by the Board under this subpart, as appropriate:~~

(1) As part of the covered company's capital plan and capital planning process, including when making changes to the covered company's capital structure (including the level and composition of capital);

(2) When assessing the covered company's exposures, concentrations, and risk positions; and

(3) In the development or implementation of any plans of the covered company for recovery or resolution.

(b) Resolution plan updates. Each covered company must update its resolution plan as the Board determines appropriate, based on the results of the Board's analyses of the covered company under this subpart.

Subpart F—Company-Run Stress Test Requirements for U.S. Bank Holding Companies With $50 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board

§ 252.51 Authority and purpose.

(a) Authority. 12 U.S.C. 321-338a, 1467a(g), 1818, 1831p-1, 1844(b), 1844(c), 5361, 5365, 5366.

(b) Purpose. This subpart implements section 165(i)(2) of the Dodd-Frank Act (12 U.S.C. 5365(i)(2)), which requires a covered company to conduct annual and semi-annual stress tests. This subpart also establishes definitions of stress test and related terms, methodologies for conducting stress tests, and reporting and disclosure requirements.

§ 252.52 Definitions.

For purposes of this subpart, the following definitions apply:

(a) Advanced approaches means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

(b) Adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered company that are more adverse than those associated with the baseline scenario and may include trading or other additional components.

(c) Average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y–9C, for the most recent quarter or consecutive quarters. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average.

(d) Bank holding company has the same meaning as in § 225.2(c) of the Board's Regulation Y (12 CFR 225.2(c)).

(e) Baseline scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered company and that reflect the consensus views of the economic and financial outlook.

(f) Capital action has the same meaning as in § 225.8(c)(2) of the Board's Regulation Y (12 CFR 225.8(c)(2)).

(g) Covered company means:

(1) A bank holding company (other than a foreign banking organization) with average total consolidated assets of $50 billion or more; ~~and~~

~~(2~~(2) A U.S. intermediate holding company subject to this section pursuant to § 252.153; and

(3) A nonbank financial company supervised by the Board.

(h) Depository institution has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)).

(i) Foreign banking organization has the same meaning as in § 211.21(o) of the Board's Regulation K (12 CFR 211.21(o)).

(j) Nonbank financial company supervised by the Board means a nonbank financial company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(k) Planning horizon means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle (on October 1 or April 1, as appropriate) over which the relevant projections extend.

(l) Pre-provision net revenue means the sum of net interest income and non-interest income less expenses before adjusting for loss provisions.

(m) Provision for loan and lease losses means the provision for loan and lease losses as reported by the covered company on the FR Y–9C.

(n) Regulatory capital ratio means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, the company's tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part 225) and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation.

(o) Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board, or with respect to the mid-cycle stress test required under § 252.55, the covered company, annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

(p) Severely adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered company and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

(q) Stress test means a process to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a covered company over the planning horizon, taking into account its current condition, risks, exposures, strategies, and activities.

(r) Stress test cycle means ~~the period between October 1 of a calendar year and September 30 of the following calendar year.~~:

(i) Until September 30, 2015, the period beginning October 1 of a calendar year and ending on September 30 of the following calendar year, and

(ii) Beginning October 1, 2015, the period beginning January 1 of a calendar year and ending on December 31 of that year.

(s) Subsidiary has the same meaning as in § 225.2(o) the Board's Regulation Y (12 CFR 225.2).

(t) Tier 1 common ratio has the same meaning as in § 225.8 of the Board's Regulation Y (12 CFR 225.8).

§ 252.53 Applicability.

~~(a) *Compliance*~~(a) Scope. (1) Applicability. Except as provided in paragraph (b) of this section, this subpart applies to any covered company, which includes:

(i) Any bank holding company with average total consolidated assets (as defined in § 252.42(c)) of $50 billion or more;

(ii) Any U.S. intermediate holding company subject to this section pursuant to § 252.153; and

(iii) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) Ongoing applicability. A bank holding company (including any successor company) that is subject to any requirement in subpart shall remain subject to the requirement unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(b) Transitional arrangements. (1) Transition periods for bank holding companies that ~~*are*~~become covered companies ~~*as of November 15, 2012.* (~~after October 1~~) *In general.* Except as provided in paragraph (a)(2) or (a)(3) of this section,~~, 2014. (i) A bank holding company that ~~is~~becomes a covered company ~~as of November 15, 2012,~~after October 1, 2014, but on or before March 31 of a given year must comply with the requirements of this subpart beginning ~~with the stress test cycle commencing on October 1, 2013~~on January 1 of the following year, unless that time is extended by the Board in writing.

(~~2) *2009 Supervisory Capital Assessment Program.*~~ii) A bank holding company that ~~participated in the 2009 Supervisory Capital Assessment Program, or~~becomes a ~~successor to such a bank holding~~covered company~~,~~ after October 1, 2014, and after March 31 of a given year must comply with the requirements of this subpart beginning ~~with the stress test cycle commencing on November 15, 2012~~on January 1 of the second year following that given year, unless that time is extended by the Board in writing.

~~(3)~~(2) Bank holding companies that rely on SR Letter 01-01. ~~A U.S.-domiciled bank holding company that is~~ A covered company ~~as of November 15, 2012, and~~ that is ~~a subsidiary of a foreign banking organization that is currently~~ relying as of July 20, 2015, on Supervision and Regulation Letter SR 01~~-~~–01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning ~~with the stress test cycle commencing on October 1, 2015~~January 1, 2016, unless that time is extended by the Board in writing.

~~(b) *Compliance date for institutions that become covered companies after November 15, 2012.* (1) *Bank holding companies.* A bank holding company that becomes a covered company after November 15, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the bank holding company becomes a covered company, unless that time is extended by the Board in writing.~~

(~~2~~3) Nonbank financial companies supervised by the Board. ~~A company that becomes~~(i) The Board will apply this subpart to a nonbank financial company supervised by the Board ~~must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which company first becomes subject to the Board's minimum regulatory capital requirements, unless~~ by rule or order.

(ii) If the Board ~~accelerates or extends the compliance date~~issues the rule or order described in paragraph (b)(3)(i) of this section on or before March 31 of a given year, the nonbank financial company supervised by the Board will be required to comply with the requirements of this subpart on January 1 of the following year, unless that time is accelerated or extended by the Board in writing.

~~(c) *Ongoing application.* A bank holding company that is a covered company will remain subject to the requirements of this subpart unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C. The calculation will be effective on the as-of date of the fourth consecutive FR Y-9C.~~

~~(d)~~ (iii) If the Board issues the rule or order described in paragraph (b)(3)(i) of this section after March 31 of a given year, the nonbank financial company supervised by the Board will be required to comply with the requirements of this subpart on January 1 of the second year following that given year, unless that time is accelerated or extended by the Board in writing.

(3) Transition periods for covered companies subject to the advanced approaches. Notwithstanding any other requirement in this section~~, for a given capital plan cycle~~:

~~(1) Until October 1, 2015, a covered company's estimates of~~ (i) A covered company must use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 252, subpart D and E, as applicable, to estimate its pro forma regulatory capital ratios and ~~the estimate of~~ its pro forma tier

1 common ratio ~~over the planning horizon shall~~for the stress test cycle beginning October 1, 2014, and may not ~~include estimates using~~use the advanced approaches until January 1, 2016; and

(~~2~~ii) Beginning ~~October~~January 1, ~~2015, for a given stress test cycle~~2016, a covered ~~company's estimates of~~company must use the advanced approaches to estimate its pro forma regulatory capital ratios and ~~the estimate of~~ its pro forma tier 1 common ratio ~~over the planning horizon shall not include estimates using the advanced approaches~~ for purposes of its stress test under § 252.54 if the Board notifies the company ~~is notified on or after~~before the first day of ~~that~~the stress test cycle ~~(October 1)~~ that ~~it~~the company is required to ~~calculate~~use the advanced approaches to determine its risk-based capital requirements ~~using the advanced approaches~~.

§ 252.54 Annual stress test.

(a) In general. A covered company must conduct an annual stress test. For the stress test cycle beginning October 1, 2014, the stress test must be conducted by January 5 ~~during each stress test cycle~~ , 2015, based on data as of September 30, 2014, unless the time or the as-of date is extended by the Board in writing. For each stress test cycle beginning thereafter, the stress test must be conducted by April 5 of each calendar year based on data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) Scenarios provided by the Board. (1) In general. In conducting a stress test under this section, a covered company must, at a minimum, use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (~~b)(~~3) of this section, for the stress test cycle beginning October 1, 2014, the Board will provide a description of the scenarios to each covered company no later than November 15 ~~of that calendar year.~~, 2014. Except as provided in paragraphs (b)(2) and (3) of this section, for each stress test cycle beginning thereafter, the Board will provide a description of the scenarios to each covered company no later than February 15 of that calendar year.

(2) Additional components. (i) The Board may require a covered company with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y-14), to include a trading and counterparty component in its adverse and severely adverse scenarios in the stress test required by this section. ~~The~~ For the stress test cycle beginning October 1, 2014, the data used in this component ~~will~~must be as of a date between October 1 and December 1, 2014, as selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than December 1, 2014. For the stress test cycle beginning January 1, 2016, and for each stress test cycle beginning thereafter, the data used in this component must be as of a date between January 1 and March 1 of that calendar year selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than ~~December~~March 1 of the relevant calendar year.

(ii) The Board may require a covered company to include one or more additional components in its adverse and severely adverse scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(3) Additional scenarios. The Board may require a covered company to use one or more additional scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(4) Notice and response. (i) Notification of additional component. If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2~~)(ii~~) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. For the stress test cycle beginning October 1, 2014, the Board will provide such notification no later than September 30~~.~~, 2014, and for each stress test cycle beginning thereafter, the Board will provide such notification no later than December 31 of the preceding calendar year. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

(ii) Request for reconsideration and Board response. Within 14 calendar days of receipt of a notification under this paragraph, the covered company may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted.

(iii) Description of component. The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by December 1~~.~~, 2014 (for the stress test cycle beginning October 1, 2014) and by March 1 (for each stress test cycle beginning thereafter).

§ 252.55 Mid-cycle stress test.

(a) Mid-cycle stress test requirement. In addition to the stress test required under § 252.54, a covered company must conduct a mid-cycle stress test ~~by July 5 during each~~. For the stress test cycle beginning October 1, 2014, the mid-cycle stress test must be conducted by July 5 based on data as of March 31 of that calendar year, unless the time or the as-of date is extended by the Board in writing. For each stress test cycle beginning thereafter, the stress test must be conducted by September 30 of each calendar year based on data as of June 30 of that calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) Scenarios related to mid-cycle stress tests. (1) In general. A covered company must develop and employ a minimum of three scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario, that are appropriate for its own risk profile and operations, in conducting the stress test required by this section.

(2) Additional components. The Board may require a covered company to include one or more additional components in its adverse and severely adverse scenarios in the stress test required by

this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(3) Additional scenarios. The Board may require a covered company to use one or more additional scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(4) Notice and response. (i) Notification of additional component. If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. For the stress test cycle beginning October 1, 2014, the Board will provide such notification no later than March 31~~.~~, and for each stress test cycle beginning thereafter, the Board will provide such notification no later than June 30. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

(ii) Request for reconsideration and Board response. Within 14 calendar days of receipt of a notification under this paragraph, the covered company may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request.

(iii) Description of component. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by June 1~~.~~ (for the stress test cycle beginning October 1, 2014) and by September 1 (for each stress test cycle beginning thereafter).

§ 252.56 Methodologies and practices.

(a) Potential impact on capital. In conducting a stress test under §§ 252.54 and 252.55, for each quarter of the planning horizon, a covered company must estimate the following for each scenario required to be used:

(1) Losses, pre-provision net revenue, provision for loan and lease losses, and net income; and

(2) The potential impact on pro forma regulatory capital levels and pro forma capital ratios (including regulatory capital ratios, the tier 1 common ratio, and any other capital ratios specified by the Board), incorporating the effects of any capital actions over the planning horizon and maintenance of an allowance for loan losses appropriate for credit exposures throughout the planning horizon.

(b) Assumptions regarding capital actions. In conducting a stress test under §§ 252.54 and 252.55, a covered company is required to make the following assumptions regarding its capital actions over the planning horizon~~—~~:

(1) For the first quarter of the planning horizon, the covered company must take into account its actual capital actions as of the end of that quarter; and

(2) For each of the second through ninth quarters of the planning horizon, the covered company must include in the projections of capital:

(i) Common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters);

(ii) Payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter;~~ and~~

(iii) An assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and

(iv) An assumption of no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation.

(c) Controls and oversight of stress testing processes. (1) In general. The senior management of a covered company must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in this subpart. These policies and procedures must, at a minimum, describe the covered company's stress testing practices and methodologies, and processes for validating and updating the company’s stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance. Policies of covered companies must also describe processes for scenario development for the mid-cycle stress test required under § 252.55.

(2) Oversight of stress testing processes. The board of directors, or a committee thereof, of a covered company must review and approve~~ and review~~ the policies and procedures of the stress testing processes as frequently as economic conditions or the condition of the covered company may warrant, but no less than annually. The board of directors and senior management of the covered company must receive a summary of the results of any stress test conducted under this subpart.

(3) Role of stress testing results. The board of directors and senior management of each covered company must consider the results of the analysis it conducts under this subpart, as appropriate:

(i) As part of the covered company’s capital plan and capital planning process, including when making changes to the covered company’s capital structure (including the level and composition of capital);

(ii) When assessing the covered company’s exposures, concentrations, and risk positions; and

(iii) In the development or implementation of any plans of the covered company for recovery or resolution.

§ 252.57 Reports of stress test results.

(a) Reports to the Board of stress test results. (1) A covered company must report the results of the stress test required under § 252.54 to the Board ~~by January 5 of each calendar year~~ in the manner and form prescribed by the Board. For the stress test cycle beginning October 1, 2014, such results must be submitted by January 5, unless that time is extended by the Board in writing. For each stress test cycle beginning thereafter, such results must be submitted by April 5, unless that time is extended by the Board in writing.

(2) A covered company must report the results of the stress test required under § 252.55 to the Board ~~by July 5 of each calendar year~~ in the manner and form prescribed by the Board. For the stress test cycle beginning October 1, 2014, such results must be submitted by July 5, unless that time is extended by the Board in writing. For each stress test cycle beginning thereafter, such results must be submitted by October 5, unless that time is extended by the Board in writing.

(b) Confidential treatment of information submitted. The confidentiality of information submitted to the Board under this subpart and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

§ 252.58 Disclosure of stress test results.

(a) Public disclosure of results. (1) In general. (i) A covered company must publicly disclose a summary of the results of the stress test required under §252.54 ~~in~~within the period ~~beginning on March~~that is 15 ~~and ending on March 31,~~days after the Board publicly discloses the results of its supervisory stress test of the covered company pursuant to § 252.46(c), unless that time is extended by the Board in writing.

(ii) A covered company must publicly disclose a summary of the results of the stress test required under § 252.55. For the stress test cycle beginning October 1, 2014, this disclosure must occur in the period beginning ~~on September 15~~July 5 and ending ~~on September 30~~July 20, unless that time is extended by the Board in writing. For all stress test cycles beginning thereafter, this disclosure must occur in the period beginning October 5 and ending October 20, unless that time is extended by the Board in writing.

(2) Disclosure method. The summary required under this section may be disclosed on the ~~Web-site~~website of a covered company, or in any other forum that is reasonably accessible to the public.

(b) Summary of results. ~~A covered company~~The summary results must ~~disclose~~, at a minimum, contain the following information regarding the severely adverse scenario:

(1) A description of the types of risks included in the stress test;

(2) A general description of the methodologies used in the stress test, including those employed to estimate losses, revenues, provision for loan and lease losses, and changes in capital positions over the planning horizon;

(3) Estimates of—

(i) Pre-provision net revenue and other revenue;

(ii) Provision for loan and lease losses, realized losses or gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains;

(iii) Net income before taxes;

(iv) Loan losses (dollar amount and as a percentage of average portfolio balance) in the aggregate and by subportfolio, including: domestic closed-end first-lien mortgages; domestic junior lien mortgages and home equity lines of credit; commercial and industrial loans; commercial real estate loans; credit card exposures; other consumer loans; and all other loans; and

(v) Pro forma regulatory capital ratios and the tier 1 common ratio and any other capital ratios specified by the Board;

(4) An explanation of the most significant causes for the changes in regulatory capital ratios and the tier 1 common ratio; and

(5) With respect to ~~a stress test conducted pursuant to section 165(i)(2) of the Dodd-Frank Act by an insured~~ any depository institution ~~that is a~~ subsidiary ~~of the covered company and that is required to disclose a summary of its stress tests results under applicable regulations,~~that is subject to stress testing requirements pursuant to 12 U.S.C. 5365(i)(2), as implemented by subpart B of this part, 12 CFR part 46 (OCC), or 12 CFR part 325, subpart C (FDIC), changes over the planning horizon in regulatory capital ratios and any other capital ratios specified by the Board ~~of the depository institution subsidiary over the planning horizon, including~~and an explanation of the most significant causes for the changes in regulatory capital ratios.

(c) Content of results. (1) The following disclosures required under paragraph (b) of this section must be on a cumulative basis over the planning horizon:

(i) Pre-provision net revenue and other revenue;

(ii) Provision for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains;

(iii) Net income before taxes; and

(iv) Loan losses in the aggregate and by subportfolio.

(2) The disclosure of pro forma regulatory capital ratios, the tier 1 common ratio, and any other capital ratios specified by the Board that is required under paragraph (b) of this section must include the beginning value, ending value, and minimum value of each ratio over the planning horizon.

Appendix A to Part 252~~—~~ – Policy Statement on the Scenario Design Framework for Stress Testing

1. Background

The Board has imposed stress testing requirements through its regulations (stress test rules) implementing section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) and through its capital plan rule (12 CFR 225.8). Under the stress test rules issued under section 165(i)(1) of the Act, the Board conducts an annual stress test (supervisory stress tests), on a consolidated basis, of each bank holding company with total consolidated assets of $50 billion or more and each nonbank financial company that the Financial Stability Oversight Council has designated for supervision by the Board (together, covered companies).[1] In addition, under the stress test rules issued under section 165(i)(2) of the Act, covered companies must conduct stress tests semi-annually and other financial companies with total consolidated assets of more than $10 billion and for which the Board is the primary regulatory agency must conduct stress tests on an annual basis (together company-run stress tests).[2] The Board will provide for at least three different sets of conditions (each set, a scenario), including baseline, adverse, and severely adverse scenarios for both supervisory and company-run stress tests (macroeconomic scenarios).[3]

The stress test rules provide that, for the stress test cycle beginning October 1, 2014, the Board will notify covered companies by no later than November 15~~ of each year~~, 2014 of the scenarios it will use to conduct its annual supervisory stress tests and ~~provide, also by no later than November 15,~~ the scenarios that covered companies ~~and other financial companies subject to the final rules the set of scenarios they~~ must use to conduct their annual company-run stress tests.[4] For each stress test cycle beginning thereafter, the Board will provide a description of these scenarios to covered companies by no later than February 15 of that calendar year. Under the stress test rules, the Board may require certain companies to use additional components in the

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1 12 U.S.C. 5365(i)(1); 12 CFR part 252, subpart ~~F.~~ E.

2 12 U.S.C. 5365(i)(2); 12 CFR part 252, subparts ~~G~~B and ~~H.~~ F.

3 The stress test rules define scenarios as "those sets of conditions that affect the U.S. economy or the financial condition of a [company] that the Board annually determines are appropriate for use in stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios." The stress test rules define baseline scenario as a "set of conditions that affect the U.S. economy or the financial condition of a company and that reflect the consensus views of the economic and financial outlook." The stress test rules define adverse scenario a "set of conditions that affect the U.S. economy or the financial condition of a company that are more adverse than those associated with the baseline scenario and may include trading or other additional components." The stress test rules define severely adverse scenario as a "set of conditions that affect the U.S. economy or the financial condition of a company and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components." *See* 12 CFR 252.132(a), (d), (m), and (n); 12 CFR 252.142(a), (d), (o), and (p); 12 CFR 252.152(a), (e), (o), and (p).

4 12 CFR 252.~~144~~44(b), 12 CFR 252.~~154(b).~~54(b). For the stress test cycle beginning October 1, 2014, the annual company-run stress tests use data as of September 30 of each calendar year. For each stress test cycle beginning thereafter, the annual company-run stress tests use data as of December 31 of each calendar year.

adverse or severely adverse scenario or additional scenarios.5 For example, the Board expects to require large banking organizations with significant trading activities to include a trading and counterparty component (market shock, described in the following sections) in their adverse and severely adverse scenarios. The Board will provide any additional components or scenario by no later than December 1 of each year.6 The Board expects that the scenarios it will require the companies to use will be the same as those the Board will use to conduct its supervisory stress tests (together, stress test scenarios).

In addition, section 225.8 of the Board's Regulation Y (capital plan rule) requires all U.S. bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans, including stress test results, to the Board to allow the Board to assess whether they have robust, forward-looking capital planning processes and have sufficient capital to continue operations throughout times of economic and financial stress.7

Stress tests required under the stress test rules and under the capital plan rule require the Board and financial companies to calculate pro-forma capital levels—rather than "current" or actual levels—over a specified planning horizon under baseline and stressful scenarios. This approach integrates key lessons of the 2007-2009 financial crisis into the Board's supervisory framework. During the financial crisis, investor and counterparty confidence in the capitalization of financial companies eroded rapidly in the face of changes in the current and expected economic and financial conditions, and this loss in market confidence imperiled companies' ability to access funding, continue operations, serve as a credit intermediary, and meet obligations to creditors and counterparties. Importantly, such a loss in confidence occurred even when a financial institution's capital ratios were in excess of regulatory minimums. This is because the institution's capital ratios were perceived as lagging indicators of its financial condition, particularly when conditions were changing.

The stress tests required under the stress test rules and capital plan rule are a valuable supervisory tool that provides a forward-looking assessment of large financial companies' capital adequacy under hypothetical economic and financial market conditions. Currently, these stress tests primarily focus on credit risk and market risk—that is, risk of mark-to-market losses associated with companies' trading and counterparty positions—and not on other types of risk, such as liquidity risk. Pressures stemming from these sources are considered in separate supervisory exercises. No single supervisory tool, including the stress tests, can provide an assessment of a company's ability to withstand every potential source of risk.

Selecting appropriate scenarios is an especially significant consideration for stress tests required under the capital plan rule, which ties the review of a bank holding company's performance under stress scenarios to its ability to make capital distributions. More severe scenarios, all other

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5 ~~12 CFR 252.144(b), 154(b).~~ *Id.*

6 *Id.*

7 *See* Capital plans, 76 FR 74631 (Dec. 1, 2011) (codified at 12 CFR 225.8).

things being equal, generally translate into larger projected declines in banks' capital. Thus, a company would need more capital today to meet its minimum capital requirements in more stressful scenarios and have the ability to continue making capital distributions, such as common dividend payments. This translation is far from mechanical, however; it will depend on factors that are specific to a given company, such as underwriting standards and the company's business model, which would also greatly affect projected revenue, losses, and capital.

2. Overview and scope

This policy statement provides more detail on the characteristics of the stress test scenarios and explains the considerations and procedures that underlie the approach for formulating these scenarios. The considerations and procedures described in this policy statement apply to the Board's stress testing framework, including to the stress tests required under 12 CFR part 252, subparts E, F, ~~G,~~ and ~~H~~G, as well as the Board's capital plan rule (12 CFR 225.8).[8]

Although the Board does not envision that the broad approach used to develop scenarios will change from year to year, the stress test scenarios will reflect changes in the outlook for economic and financial conditions and changes to specific risks or vulnerabilities that the Board, in consultation with the other federal banking agencies, determines should be considered in the annual stress tests. The stress test scenarios should not be regarded as forecasts; rather, they are hypothetical paths of economic variables that will be used to assess the strength and resilience of the companies' capital in various economic and financial environments.

The remainder of this policy statement is organized as follows. Section 3 provides a broad description of the baseline, adverse, and severely adverse scenarios and describes the types of variables that the Board expects to include in the macroeconomic scenarios and the market shock component of the stress test scenarios applicable to companies with significant trading activity. Section 4 describes the Board's approach for developing the macroeconomic scenarios, and section 5 describes the approach for the market shocks. Section 6 describes the relationship between the macroeconomic scenario and the market shock components. Section 7 provides a timeline for the formulation and publication of the macroeconomic assumptions and market shocks.

3. Content of the stress test scenarios

The Board will publish a minimum of three different scenarios, including baseline, adverse, and severely adverse conditions, for use in stress tests required in the stress test rules.[9] In general, the Board anticipates that it will not issue additional scenarios. Specific circumstances or vulnerabilities that in any given year the Board determines require particular vigilance to ensure the resilience of the banking sector will be captured in either the adverse or severely adverse

8 The Board may determine that modifications to the approach are appropriate, for instance, to address a broader range of risks, such as, operational risk.

9 12 CFR 252.~~134~~14(b), 12 CFR 252.~~144~~44(b), 12 CFR 252.~~154~~54(b).

scenarios. A greater number of scenarios could be needed in some years—for example, because the Board identifies a large number of unrelated and uncorrelated but nonetheless significant risks.

While the Board generally expects to use the same scenarios for all companies subject to the final rule, it may require a subset of companies— depending on a company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy—to include additional scenario components or additional scenarios that are designed to capture different effects of adverse events on revenue, losses, and capital. One example of such components is the market shock that applies only to companies with significant trading activity. Additional components or scenarios may also include other stress factors that may not necessarily be directly correlated to macroeconomic or financial assumptions but nevertheless can materially affect companies' risks, such as the unexpected default of a major counterparty.

Early in each stress testing cycle, the Board plans to publish the macroeconomic scenarios along with a brief narrative summary that provides a description of the economic situation underlying the scenario and explains how the scenarios have changed relative to the previous year. In addition, to assist companies in projecting the paths of additional variables in a manner consistent with the scenario, the narrative will also provide descriptions of the general path of some additional variables. These descriptions will be general—that is, they will describe developments for broad classes of variables rather than for specific variables—and will specify the intensity and direction of variable changes but not numeric magnitudes. These descriptions should provide guidance that will be useful to companies in specifying the paths of the additional variables for their company-run stress tests. Note that in practice it will not be possible for the narrative to include descriptions on all of the additional variables that companies may need to for their company-run stress tests. In cases where scenarios are designed to reflect particular risks and vulnerabilities, the narrative will also explain the underlying motivation for these features of the scenario. The Board also plans to release a broad description of the market shock components.

3.1 Macroeconomic scenarios

The macroeconomic scenarios will consist of the future paths of a set of economic and financial variables.10The economic and financial variables included in the scenarios will likely comprise those included in the "2014 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule" (2013 supervisory scenarios). The domestic U.S. variables provided for in the 2013 supervisory scenarios included:

- Six measures of economic activity and prices: real and nominal gross domestic product (GDP) growth, the unemployment rate of the civilian non-institutional population aged 16 and over, real and nominal disposable personal income growth, and the Consumer Price Index (CPI) inflation rate;

10 The future path of a variable refers to its specification over a given time period. For example, the path of unemployment can be described in percentage terms on a quarterly basis over the stress testing time horizon.

- Four measures of developments in equity and property markets: The Core Logic National House Price Index, the National Council for Real Estate Investment Fiduciaries Commercial Real Estate Price Index, the Dow Jones Total Stock Market Index, and the Chicago Board Options Exchange Market Volatility Index; and

- Six measures of interest rates: the rate on the three-month Treasury bill, the yield on the 5-year Treasury bond, the yield on the 10-year Treasury bond, the yield on a 10-year BBB corporate security, the prime rate, and the interest rate associated with a conforming, conventional, fixed-rate, 30-year mortgage.

The international variables provided for in the 2014 supervisory scenarios included, for the euro area, the United Kingdom, developing Asia, and Japan:

- Percent change in real GDP;

- Percent change in the Consumer Price Index or local equivalent; and

- The U.S./foreign currency exchange rate.[11]

The economic variables included in the scenarios influence key items affecting financial companies' net income, including pre-provision net revenue and credit losses on loans and securities. Moreover, these variables exhibit fairly typical trends in adverse economic climates that can have unfavorable implications for companies' net income and, thus, capital positions.

The economic variables included in the scenario may change over time. For example, the Board may add variables to a scenario if the international footprint of companies that are subject to the stress testing rules changed notably over time such that the variables already included in the scenario no longer sufficiently capture the material risks of these companies. Alternatively, historical relationships between macroeconomic variables could change over time such that one variable (*e.g.*, disposable personal income growth) that previously provided a good proxy for another (*e.g.*, light vehicle sales) in modeling companies' pre-provision net revenue or credit losses ceases to do so, resulting in the need to create a separate path, or alternative proxy, for the other variable. However, recognizing the amount of work required for companies to incorporate the scenario variables into their stress testing models, the Board expects to eliminate variables from the scenarios only in rare instances.

The Board expects that the company may not use all of the variables provided in the scenario, if those variables are not appropriate to the company's line of business, or may add additional variables, as appropriate. The Board expects the companies will ensure that the paths of such additional variables are consistent with the scenarios the Board provided. For example, the companies may use, as part of their internal stress test models, local-level variables, such as state-level unemployment rates or city-level house prices. While the Board does not plan to include local-level macro variables in the stress test scenarios it provides, it expects the

11 The Board may increase the range of countries or regions included in future scenarios, as appropriate.

companies to evaluate the paths of local-level macro variables as needed for their internal models, and ensure internal consistency between these variables and their aggregate, macro-economic counterparts. The Board will provide the macroeconomic scenario component of the stress test scenarios for a period that spans a minimum of 13 quarters. The scenario horizon reflects the supervisory stress test approach that the Board plans to use. Under the stress test rules, the Board will assess the effect of different scenarios on the consolidated capital of each company over a forward-looking planning horizon of at least nine quarters.

3.2 Market shock component

The market shock component of the adverse and severely adverse scenarios will only apply to companies with significant trading activity and their subsidiaries.12The component consists of large moves in market prices and rates that would be expected to generate losses. Market shocks differ from macroeconomic scenarios in a number of ways, both in their design and application. For instance, market shocks that might typically be observed over an extended period (*e.g.*, 6 months) are assumed to be an instantaneous event which immediately affects the market value of the companies' trading assets and liabilities. In addition, under the stress test rules, the as-of date for market shocks will differ from the quarter-end, and the Board will provide the as-of date for market shocks no later than December 1 of each year. Finally, as described in section 4, the market shock includes a much larger set of risk factors than the set of economic and financial variables included in macroeconomic scenarios. Broadly, these risk factors include shocks to financial market variables that affect asset prices, such as a credit spread or the yield on a bond, and, in some cases, the value of the position itself (*e.g.*, the market value of private equity positions).

The Board envisions that the market shocks will include shocks to a broad range of risk factors that are similar in granularity to those risk factors trading companies use internally to produce profit and loss estimates, under stressful market scenarios, for all asset classes that are considered trading assets, including equities, credit, interest rates, foreign exchange rates, and commodities.

Examples of risk factors include, but are not limited to:

- Equity indices of all developed markets, and of developing and emerging market nations to which companies with significant trading activity may have exposure, along with term structures of implied volatilities;

- Cross-currency FX rates of all major and many minor currencies, along term structures of implied volatilities;

12 Currently, companies with significant trading activity include the six bank holding companies that are subject to the market risk rule and have total consolidated assets greater than $500 billion, as reported on their FR Y-9C. The Board may also subject a state member bank subsidiary of any such bank holding company to the market shock component. The set of companies subject to the market shock component could change over time as the size, scope, and complexity of financial company's trading activities evolve.

- Term structures of government rates (*e.g*., U.S. Treasuries), interbank rates (*e.g.*, swap rates) and other key rates (*e.g*., commercial paper) for all developed markets and for developing and emerging market nations to which companies may have exposure;

- Term structures of implied volatilities that are key inputs to the pricing of interest rate derivatives;

- Term structures of futures prices for energy products including crude oil (differentiated by country of origin), natural gas, and power;

- Term structures of futures prices for metals and agricultural commodities;

- "Value-drivers" (credit spreads or instrument prices themselves) for credit-sensitive product segments including: corporate bonds, credit

- default swaps, and collateralized debt obligations by risk; non-agency residential mortgage-backed securities and commercial mortgage-backed securities by risk and vintage; sovereign debt; and, municipal bonds; and

- Shocks to the values of private equity positions.

4. Approach for formulating the macroeconomic assumptions for scenarios

This section describes the Board's approach for formulating macroeconomic assumptions for each scenario. The methodologies for formulating this part of each scenario differ by scenario, so these methodologies for the baseline, severely adverse, and the adverse scenarios are described separately in each of the following subsections.

In general, the baseline scenario will reflect the most recently available consensus views of the macroeconomic outlook expressed by professional forecasters, government agencies, and other public-sector organizations as of the beginning of the annual stress-test cycle. The severely adverse scenario will consist of a set of economic and financial conditions that reflect the conditions of post-war U.S. recessions. The adverse scenario will consist of a set of economic and financial conditions that are more adverse than those associated with the baseline scenario but less severe than those associated with the severely adverse scenario.

Each of these scenarios is described further in sections below as follows: baseline (subsection 4.1), severely adverse (subsection 4.2), and adverse (subsection 4.3)

4.1 Approach for formulating macroeconomic assumptions in the baseline scenario

The stress test rules define the baseline scenario as a set of conditions that affect the U.S. economy or the financial condition of a banking organization, and that reflect the consensus views of the economic and financial outlook. Projections under a baseline scenario are used to evaluate how companies would perform in more likely economic and financial conditions. The baseline serves also as a point of comparison to the severely adverse and adverse scenarios, giving some sense of how much of the company's capital decline could be ascribed to the scenario as opposed to the company's capital adequacy under expected conditions.

The baseline scenario will be developed around a macroeconomic projection that captures the prevailing views of private-sector forecasters (*e.g.* Blue Chip Consensus Forecasts and the Survey of Professional Forecasters), government agencies, and other public-sector organizations (*e.g.*, the International Monetary Fund and the Organization for Economic Co-operation and Development) near the beginning of the annual stress-test cycle. The baseline scenario is designed to represent a consensus expectation of certain economic variables over the time period of the tests and it is not the Board's internal forecast for those economic variables. For example, the baseline path of short-term interest rates is constructed from consensus forecasts and may differ from that implied by the FOMC's *Summary of Economic Projections.*

For some scenario variables—such as U.S. real GDP growth, the unemployment rate, and the consumer price index—there will be a large number of different forecasts available to project the paths of these variables in the baseline scenario. For others, a more limited number of forecasts will be available. If available forecasts diverge notably, the baseline scenario will reflect an assessment of the forecast that is deemed to be most plausible. In setting the paths of variables in the baseline scenario, particular care will be taken to ensure that, together, the paths present a coherent and plausible outlook for the U.S. and global economy, given the economic climate in which they are formulated.

4.2 Approach for formulating the macroeconomic assumptions in the severely adverse scenario

The stress test rules define a severely adverse scenario as a set of conditions that affect the U.S. economy or the financial condition of a financial company and that overall are more severe than those associated with the adverse scenario. The financial company will be required to publicly disclose a summary of the results of its stress test under the severely adverse scenario, and the Board intends to publicly disclose the results of its analysis of the financial company under the adverse scenario and the severely adverse scenario.

4.2.1 General approach: the recession approach

The Board intends to use a recession approach to develop the severely adverse scenario. In the recession approach, the Board will specify the future paths of variables to reflect conditions that characterize post-war U.S. recessions, generating either a typical or specific recreation of a post-war U.S. recession. The Board chose this approach because it has observed that the conditions that typically occur in recessions—such as increasing unemployment, declining asset prices, and contracting loan demand—can put significant stress on companies' balance sheets. This stress can occur through a variety of channels, including higher loss provisions due to increased delinquencies and defaults; losses on trading positions through sharp moves in market prices; and lower bank income through reduced loan originations. For these reasons, the Board believes that the paths of economic and financial variables in the severely adverse scenario should, at a minimum, resemble the paths of those variables observed during a recession.

This approach requires consideration of the type of recession to feature. All post-war U.S. recessions have not been identical: some recessions have been associated with very elevated interest rates, some have been associated with sizable asset price declines, and some have been relatively more global. The most common features of recessions, however, are increases in the unemployment rate and contractions in aggregate incomes and economic activity. For this and the following reasons, the Board intends to use the unemployment rate as the primary basis for specifying the severely adverse scenario. First, the unemployment rate is likely the most representative single summary indicator of adverse economic conditions. Second, in comparison to GDP, labor market data have traditionally featured more prominently than GDP in the set of indicators that the National Bureau of Economic Research reviews to inform its recession dates.13Third and finally, the growth rate of potential output can cause the size of the decline in GDP to vary between recessions. While changes in the unemployment rate can also vary over time due to demographic factors, this seems to have more limited implications over time relative to changes in potential output growth. The unemployment rate used in the severely adverse scenario will reflect an unemployment rate that has been observed in *severe* post-war U.S. recessions, measuring severity by the absolute level of and relative increase in the unemployment rate.14

After specifying the unemployment rate, the Board will specify the paths of other macroeconomic variables based on the paths of unemployment, income, and activity. However, many of these other variables have taken wildly divergent paths in previous recessions (*e.g.,* house prices), requiring the Board to use its informed judgment in selecting appropriate paths for these variables. In general, the path for these other variables will be based on their underlying structure at the time that the scenario is designed (*e.g.,* the relative fragility of the housing finance system).

The Board considered alternative methods for scenario design of the severely adverse scenario, including a probabilistic approach. The probabilistic approach constructs a baseline forecast from a large-scale macroeconomic model and identifies a scenario that would have a specific probabilistic likelihood given the baseline forecast. The Board believes that, at this time, the recession approach is better suited for developing the severely adverse scenario than a probabilistic approach because it guarantees a recession of some specified severity. In contrast, the probabilistic approach requires the choice of an extreme tail outcome—relative to baseline—to characterize the severely adverse scenario (*e.g.*, a 5 percent or a 1 percent. tail outcome). In practice, this choice is difficult as adverse economic outcomes are typically thought of in terms of how variables evolve in an absolute sense rather than how far away they lie in the probability

13 More recently, a monthly measure of GDP has been added to the list of indicators.

14 Even though all recessions feature increases in the unemployment rate and contractions in incomes and economic activity, the size of this change has varied over post-war U.S. recessions. Table 1 documents the variability in the depth of post-war U.S. recessions. Some recessions—labeled mild in Table 1—have been relatively modest with GDP edging down just slightly and the unemployment rate moving up about a percentage point. Other recessions—labeled severe in Table 1—have been much harsher with GDP dropping 3¾ percent and the unemployment rate moving up a total of about 4 percentage points.

space away from the baseline. In this sense, a scenario featuring a recession may be somewhat clearer and more straightforward to communicate. Finally, the probabilistic approach relies on estimates of uncertainty around the baseline scenario and such estimates are in practice model-dependent.

4.2.2 Setting the unemployment rate under the severely adverse scenario

The Board anticipates that the severely adverse scenario will feature an unemployment rate that increases between 3 to 5 percentage points from its initial level over the course of 6 to 8 calendar quarters.[15] The initial level will be set based on the conditions at the time that the scenario is designed. However, if a 3 to 5 percentage point increase in the unemployment rate does not raise the level of the unemployment rate to at least 10 percent—the average level to which it has increased in the most recent three severe recessions—the path of the unemployment rate in most cases will be specified so as to raise the unemployment rate to at least 10 percent.

This methodology is intended to generate scenarios that feature stressful outcomes but do not induce greater procyclicality in the financial system and macroeconomy. When the economy is in the early stages of a recovery, the unemployment rate in a baseline scenario generally trends downward, resulting in a larger difference between the path of the unemployment rate in the severely adverse scenario and the baseline scenario and a severely adverse scenario that is relatively more intense. Conversely, in a sustained strong expansion—when the unemployment rate may be below the level consistent with full employment—the unemployment in a baseline scenario generally trends upward, resulting in a smaller difference between the path of the unemployment rate in the severely adverse scenario and the baseline scenario and a severely adverse scenario that is relatively less intense. Historically, a 3 to 5 percentage point increase in unemployment rate is reflective of stressful conditions. As illustrated in Table 1, over the last half-century, the U.S. economy has experienced four severe post-war recessions. In all four of these recessions the unemployment rate increased 3 to 5 percentage points and in the three most recent of these recessions the unemployment rate reached a level between 9 percent and 11 percent.

Under this method, if the initial unemployment rate were low—as it would be after a sustained long expansion—the unemployment rate in the scenario would increase to a level as high as what has been seen in past severe recessions. However, if the initial unemployment rate were already high—as would be the case in the early stages of a recovery—the unemployment rate would exhibit a change as large as what has been seen in past severe recessions.

The Board believes that the typical increase in the unemployment rate in the severely adverse scenario will be about 4 percentage points. However, the Board will calibrate the increase in unemployment based on its views of the status of cyclical systemic risk. The Board intends to set the unemployment rate at the higher end of the range if the Board believed that cyclical systemic

15 Six to eight quarters is the average number of quarters for which a severe recession lasts plus the average number of subsequent quarters over which the unemployment rate continues to rise. The variable length of the timeframe reflects the different paths to the peak unemployment rate depending on the severity of the scenario.

risks were high (as it would be after a sustained long expansion), and to the lower end of the range if cyclical systemic risks were low (as it would be in the earlier stages of a recovery). This may result in a scenario that is slightly more intense than normal if the Board believed that cyclical systemic risks were increasing in a period of robust expansion.[16] Conversely, it will allow the Board to specify a scenario that is slightly less intense than normal in an environment where systemic risks appeared subdued, such as in the early stages of an expansion. However, even at the lower end of the range of unemployment-rate increases, the scenario will still feature an increase in the unemployment rate similar to what has been seen in about half of the severe recessions of the last 50 years.

As indicated previously, if a 3 to 5 percentage point increase in the unemployment rate does not raise the level of the unemployment rate to 10 percent—the average level to which it has increased in the most recent three severe recessions—the path of the unemployment rate will be specified so as to raise the unemployment rate to 10 percent. Setting a floor for the unemployment rate at 10 percent recognizes the fact that not only do cyclical systemic risks build up at financial intermediaries during robust expansions but that these risks are also easily obscured by the buoyant environment.

In setting the increase in the unemployment rate, the Board will consider the extent to which analysis by economists, supervisors, and financial market experts finds cyclical systemic risks to be elevated (but difficult to be captured more precisely in one of the scenario's other variables). In addition, the Board—in light of impending shocks to the economy and financial system—will also take into consideration the extent to which a scenario of some increased severity might be necessary for the results of the stress test and the associated supervisory actions to sustain confidence in financial institutions.

While the approach to specifying the severely adverse scenario is designed to avoid adding sources of procyclicality to the financial system, it is not designed to explicitly offset any existing procyclical tendencies in the financial system. The purpose of the stress test scenarios is to make sure that the companies are properly capitalized to withstand severe economic and financial conditions, not to serve as an explicit countercyclical offset to the financial system.

In developing the approach to the unemployment rate, the Board also considered a method that would increase the unemployment rate to some fairly elevated fixed level over the course of 6 to 8 quarters. This will result in scenarios being more severe in robust expansions (when the unemployment rate is low) and less severe in the early stages of a recovery (when the unemployment rate is high) and so would not result in pro-cyclicality. Depending on the initial level of the unemployment rate, this approach could lead to only a very modest increase in the unemployment rate—or even a decline. As a result, this approach—while not procyclical—could result in scenarios not featuring stressful macroeconomic outcomes.

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16 Note, however, that the severity of the scenario would not exceed an implausible level: even at the upper end of the range of unemployment-rate increases, the path of the unemployment rate would still be consistent with severe post-war U.S. recessions.

4.2.3 Setting the other variables in the severely adverse scenario

Generally, all other variables in the severely adverse scenario will be specified to be consistent with the increase in the unemployment rate. The approach for specifying the paths of these variables in the scenario will be a combination of (1) how economic models suggest that these variables should evolve given the path of the unemployment rate, (2) how these variables have typically evolved in past U.S. recessions, and (3) and evaluation of these and other factors.

Economic models—such as medium-scale macroeconomic models—should be able to generate plausible paths consistent with the unemployment rate for a number of scenario variables, such as real GDP growth, CPI inflation and short-term interest rates, which have relatively stable (direct or indirect) relationships with the unemployment rate (*e.g.*, Okun's Law, the Phillips Curve, and interest rate feedback rules). For some other variables, specifying their paths will require a case-by-case consideration. For example, declining house prices, which are an important source of stress to a company's balance sheet, are not a steadfast feature of recessions, and the historical relationship of house prices with the unemployment rate or any other variable that deteriorates in recessions is not strong. Simply adopting their typical path in a severe recession would likely underestimate risks stemming from the housing sector. In this case, some modified approach—in which perhaps recessions in which house prices declined were judgmentally weighted more heavily—will be appropriate.

In addition, judgment is necessary in projecting the path of a scenario's international variables. Recessions that occur simultaneously across countries are an important source of stress to the balance sheets of companies with notable international exposures but are not an invariable feature of the international economy. As a result, simply adopting the typical path of international variables in a severe U.S. recession would likely underestimate the risks stemming from the international economy. Consequently, an approach like that used for projecting house prices is followed where judgment and economic models together inform the path of international variables.

4.2.4 Adding salient risks to the severely adverse scenario

The severely adverse scenario will be developed to reflect specific risks to the economic and financial outlook that are especially salient but will feature minimally in the scenario if the Board were only to use approaches that looked to past recessions or relied on historical relationships between variables.

There are some important instances when it will be appropriate to augment the recession approach with salient risks. For example, if an asset price were especially elevated and thus potentially vulnerable to an abrupt and potentially destabilizing decline, it would be appropriate to include such a decline in the scenario even if such a large drop were not typical in a severe recession. Likewise, if economic developments abroad were particularly unfavorable, assuming a weakening in international conditions larger than what typically occurs in severe U.S. recessions would likely also be appropriate.

Clearly, while the recession component of the severely adverse scenario is within some predictable range, the salient risk aspect of the scenario is far less so, and therefore, needs an annual assessment. Each year, the Board will identify the risks to the financial system and the domestic and international economic outlooks that appear more elevated than usual, using its internal analysis and supervisory information and in consultation with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). Using the same information, the Board will then calibrate the paths of the macroeconomic and financial variables in the scenario to reflect these risks.

Detecting risks that have the potential to weaken the banking sector is particularly difficult when economic conditions are buoyant, as a boom can obscure the weaknesses present in the system. In sustained robust expansions, therefore, the selection of salient risks to augment the scenario will err on the side of including risks of uncertain significance.

The Board will factor in particular risks to the domestic and international macroeconomic outlook identified by its economists, bank supervisors, and financial market experts and make appropriate adjustments to the paths of specific economic variables. These adjustments will not be reflected in the general severity of the recession and, thus, all macroeconomic variables; rather, the adjustments will apply to a subset of variables to reflect co-movements in these variables that are historically less typical. The Board plans to discuss the motivation for the adjustments that it makes to variables to highlight systemic risks in the narrative describing the scenarios.17

4.3 Approach for formulating macroeconomic assumptions in the adverse scenario

The adverse scenario can be developed in a number of different ways, and the selected approach will depend on a number of factors, including how the Board intends to use the results of the adverse scenario.18 Generally, the Board believes that the companies should consider multiple adverse scenarios for their internal capital planning purposes, and likewise, it is appropriate that the Board consider more than one adverse scenario to assess a company's ability to withstand stress. Accordingly, the Board does not identify a single approach for specifying the adverse scenario. Rather, the adverse scenario will be formulated according to one of the possibilities listed below. The Board may vary the approach it uses for the adverse scenario each year so that the results of the scenario provide the most value to supervisors, in light of current condition of the economy and the financial services industry.

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17 The means of effecting an adjustment to the severely adverse scenario to address salient systemic risks differs from the means used to adjust the unemployment rate. For example, in adjusting the scenario for an increased unemployment rate, the Board would modify all variables such that the future paths of the variables are similar to how these variables have moved historically. In contrast, to address salient risks, the Board may only modify a small number of variables in the scenario and, as such, their future paths in the scenario would be somewhat more atypical, albeit not implausible, given existing risks.

18 For example, in the context of CCAR, the Board currently uses the adverse scenario as one consideration in evaluating a bank holding company's capital adequacy.

The simplest method to specify the adverse scenario is to develop a less severe version of the severely adverse scenario. For example, the adverse scenario could be formulated such that the deviations of the paths of the variables relative to the baseline were simply one-half of or two-thirds of the deviations of the paths of the variables relative to the baseline in the severely adverse scenario. *A priori*, specifying the adverse scenario in this way may appear unlikely to provide the greatest possible informational value to supervisors—given that it is just a less severe version of the severely adverse scenario. However, to the extent that the effect of macroeconomic variables on company loss positions and incomes are nonlinear, there could be potential value from this approach.

Another method to specify the adverse scenario is to capture risks in the adverse scenario that the Board believes should be understood better or should be monitored, but does not believe should be included in the severely adverse scenario, perhaps because these risks would render the scenario implausibly severe. For instance, the adverse scenario could feature sizable increases in oil or natural gas prices or shifts in the yield curve that are atypical in a recession. The adverse scenario might also feature less acute, but still consequential, adverse outcomes, such as a disruptive slowdown in growth from emerging-market economies.

Under the Board's stress test rules, covered companies are required to develop their own scenarios for mid-cycle company-run stress tests.19 A particular combination of risks included in these scenarios may inform the design of the adverse scenario for annual stress tests. In this same vein, another possibility would be to use modified versions of the circumstances that companies describe in their living wills as being able to cause their failures.

It might also be informative to periodically use a stable adverse scenario, at least for a few consecutive years. Even if the scenario used for the stress test does not change over the credit cycle, if companies tighten and relax lending standards over the cycle, their loss rates under the adverse scenario—and indirectly the projected changes to capital—would decrease and increase, respectively. A consistent scenario would allow the direct observation of how capital fluctuates to reflect growing cyclical risks.

The Board may consider specifying the adverse scenario using the probabilistic approach described in section 4.2.1 (that is, with a specified lower probability of occurring than the severely adverse scenario but a greater probability of occurring than the baseline scenario). The approach has some intuitive appeal despite its shortcomings. For example, using this approach for the adverse scenario could allow the Board to explore an alternative approach to develop stress testing scenarios and their effect on a company's net income and capital.

Finally, the Board could design the adverse scenario based on a menu of historical experiences—such as, a moderate recession (*e.g.*, the 1990-1991 recession); a stagflation event (*e.g.*, stagflation during 1974); an emerging markets crisis (*e.g.*, the Asian currency crisis of 1997-1998); an oil price shock (*e.g.*, the shock during the run up to the 1990-1991 recession); or high

19 12 CFR 252.~~145.~~55

inflation shock (*e.g.*, the inflation pressures of 1977-1979). The Board believes these are important stresses that should be understood; however, there may be notable benefits from formulating the adverse scenario following other approaches—specifically, those described previously in this section—and consequently the Board does not believe that the adverse scenario should be limited to historical episodes only.

With the exception of cases in which the probabilistic approach is used to generate the adverse scenario, the adverse scenario will at a minimum contain a mild to moderate recession. This is because most of the value from investigating the implications of the risks described above is likely to be obtained from considering them in the context of balance sheets of companies that are under some stress.

5. Approach for formulating the market shock component

This section discusses the approach the Board proposes to adopt for developing the market shock component of the adverse and severely adverse scenarios appropriate for companies with significant trading activities. The design and specification of the market shock component differs from that of the macroeconomic scenarios because profits and losses from trading are measured in mark-to-market terms, while revenues and losses from traditional banking are generally measured using the accrual method. As noted above, another critical difference is the time-evolution of the market shock component. The market shock component consists of an instantaneous "shock" to a large number of risk factors that determine the mark-to-market value of trading positions, while the macroeconomic scenarios supply a projected path of economic variables that affect traditional banking activities over the entire planning period.

The development of the market shock component that are detailed in this section are as follows: baseline (subsection 5.1), severely adverse (subsection 5.2), and adverse (subsection 5.3).

5.1 Approach for formulating the market shock component under the baseline scenario

By definition, market shocks are large, previously unanticipated moves in asset prices and rates. Because asset prices should, broadly speaking, reflect consensus opinions about the future evolution of the economy, large price movements, as envisioned in the market shock, should not occur along the baseline path. As a result, the market shock will not be included in the baseline scenario.

5.2 Approach for formulating the market shock component under the severely adverse scenario

This section addresses possible approaches to designing the market shock component in the severely adverse scenario, including important considerations for scenario design, possible approaches to designing scenarios, and a development strategy for implementing the preferred approach.

5.2.1 Design considerations for market shocks

The general market practice for stressing a trading portfolio is to specify market shocks either in terms of extreme moves in observable, broad market indicators and risk factors or directly as large changes to the mark-to-market values of financial instruments. These moves can be specified either in relative terms or absolute terms. Supplying values of risk factors after a "shock" is roughly equivalent to the macroeconomic scenarios, which supply values for a set of economic and financial variables; however, trading stress testing differs from macroeconomic stress testing in several critical ways.

In the past, the Board used one of two approaches to specify market shocks. During SCAP and CCAR in 2011, the Board used a very general approach to market shocks and required companies to stress their trading positions using changes in market prices and rates experienced during the second half of 2008, without specifying risk factor shocks. This broad guidance resulted in inconsistency across companies both in terms of the severity and the application of shocks. In certain areas companies were permitted to use their own experience during the second half of 2008 to define shocks. This resulted in significant variation in shock severity across companies.

To enhance the consistency and comparability in market shocks for the stress tests in 2012 and 2013, the Board provided to each trading company more than 35,000 specific risk factor shocks, primarily based on market moves in the second half of 2008. While the number of risk factors used in companies' pricing and stress-testing models still typically exceed that provided in the Board's scenarios, the greater specificity resulted in more consistency in the scenario across companies. The benefit of the comprehensiveness of risk factor shocks is at least partly offset by potential difficulty in creating shocks that are coherent and internally consistent, particularly as the framework for developing market shocks deviates from historical events.

Also importantly, the ultimate losses associated with a given market shock will depend on a company's trading positions, which can make it difficult to rank order, *ex ante*, the severity of the scenarios. In certain instances, market shocks that include large market moves may not be particularly stressful for a given company. Aligning the market shock with the macroeconomic scenario for consistency may result in certain companies actually benefiting from risk factor moves of larger magnitude in the market scenario if the companies are hedging against salient risks to other parts of their business. Thus, the severity of market shocks must be calibrated to take into account how a complex set of risks, such as directional risks and basis risks, interacts with each other, given the companies' trading positions at the time of stress. For instance, a large depreciation in a foreign currency would benefit companies with net short positions in the currency while hurting those with net long positions. In addition, longer maturity positions may move differently from shorter maturity positions, adding further complexity.

The instantaneous nature of market shocks and the immediate recognition of mark-to-market losses add another element to the design of market shocks, and to determining the appropriate severity of shocks. For instance, in previous stress tests, the Board assumed that market moves that occurred over the six-month period in late 2008 would occur instantaneously. The design of the market shocks must factor in appropriate assumptions around the period of time during which market events will unfold and any associated market responses.

5.2.2 Approaches to market shock design

As an additional component of the adverse and severely adverse scenarios, the Board plans to use a standardized set of market shocks that apply to all companies with significant trading activity. The market shocks could be based on a single historical episode, multiple historical periods, hypothetical (but plausible) events, or some combination of historical episodes and hypothetical events (hybrid approach). Depending on the type of hypothetical events, a scenario based on such events may result in changes in risk factors that were not previously observed. In the supervisory scenarios for 2012 and 2013, the shocks were largely based on relative moves in asset prices and rates during the second half of 2008, but also included some additional considerations to factor in the widening of spreads for European sovereigns and financial companies based on actual observation during the latter part of 2011.

For the market shock component in the severely adverse scenario, the Board plans to use the hybrid approach to develop shocks. The hybrid approach allows the Board to maintain certain core elements of consistency in market shocks each year while providing flexibility to add hypothetical elements based on market conditions at the time of the stress tests. In addition, this approach will help ensure internal consistency in the scenario because of its basis in historical episodes; however, combining the historical episode and hypothetical events may require small adjustments to ensure mutual consistency of the joint moves. In general, the hybrid approach provides considerable flexibility in developing scenarios that are relevant each year, and by introducing variations in the scenario, the approach will also reduce the ability of companies with significant trading activity to modify or shift their portfolios to minimize expected losses in the severely adverse market shock.

The Board has considered a number of alternative approaches for the design of market shocks. For example, the Board explored an option of providing tailored market shocks for each trading company, using information on the companies' portfolio gathered through ongoing supervision, or other means. By specifically targeting known or potential vulnerabilities in a company's trading position, the tailored approach will be useful in assessing each company's capital adequacy as it relates to the company's idiosyncratic risk. However, the Board does not believe this approach to be well-suited for the stress tests required by regulation. Consistency and comparability are key features of annual supervisory stress tests and annual company-run stress tests required in the stress test rules. It would be difficult to use the information on the companies' portfolio to design a common set of shocks that are universally stressful for all covered companies. As a result, this approach will be better suited to more customized, tailored stress tests that are part of the company's internal capital planning process or to other supervisory efforts outside of the stress tests conducted under the capital rule and the stress test rules.

5.2.3 Development of the market shock

Consistent with the approach described above, the market shock component for the severely adverse scenario will incorporate key elements of market developments during the second half of 2008, but also incorporate observations from other periods or price and rate movements in certain markets that the Board deems to be plausible though such movements may not have been observed historically. Over time the Board also expects to rely less on market events of the second half of 2008 and more on hypothetical events or other historical episodes to develop the market shock.

The developments in the credit markets during the second half of 2008 were unprecedented, providing a reasonable basis for market shocks in the severely adverse scenario. During this period, key risk factors in virtually all asset classes experienced extremely large shocks; the collective breadth and intensity of the moves have no parallels in modern financial history and, on that basis, it seems likely that this episode will continue to be the most relevant historical scenario, although experience during other historical episodes may also guide the severity of the market shock component of the severely adverse scenario. Moreover, the risk factor moves during this episode are directly consistent with the "recession" approach that underlies the macroeconomic assumptions. However, market shocks based only on historical events could become stale and less relevant over time as the company's positions change, particularly if more salient features are not added each year.

While the market shocks based on the second half of 2008 are of unparalleled magnitude, the shocks may become less relevant over time as the companies' trading positions change. In addition, more recent events could highlight the companies' vulnerability to certain market events. For example, in 2011, Eurozone credit spreads in the sovereign and financial sectors surpassed those observed during the second half of 2008, necessitating the modification of the severely adverse market shock in 2012 and 2013 to reflect a salient source of stress to trading positions. As a result, it is important to incorporate both historical and hypothetical outcomes into market shocks for the severely adverse scenario. For the time being, the development of market shocks in the severely adverse scenario will begin with the risk factor movements in a particular historical period, such as the second half of 2008. The Board will then consider hypothetical but plausible outcomes, based on financial stability reports, supervisory information, and internal and external assessments of market risks and potential flash points. The hypothetical outcomes could originate from major geopolitical, economic, or financial market events with potentially significant impacts on market risk factors. The severity of these hypothetical moves will likely be guided by similar historical events, assumptions embedded in the companies' internal stress tests or market participants, and other available information.

Once broad market scenarios are agreed upon, specific risk factor groups will be targeted as the source of the trading stress. For example, a scenario involving the failure of a large, interconnected globally active financial institution could begin with a sharp increase in credit default swap spreads and a precipitous decline in asset prices across multiple markets, as investors become more risk averse and market liquidity evaporates. These broad market movements will be extrapolated to the granular level for all risk factors by examining transmission channels and the historical relationships between variables, though in some cases, the movement in particular risk factors may be amplified based on theoretical relationships, market observations, or the saliency to company trading books. If there is a disagreement between the risk factor movements in the historical event used in the scenario and the hypothetical event, the Board will reconcile the differences by assessing *a priori* expectation based on financial and economic theory and the importance of the risk factors to the trading positions of the covered companies.

5.3 Approach for formulating the market shock under the adverse scenario

The market shock component included in the adverse scenario will feature risk factor movements that are generally less significant than the market shock component of the severely adverse scenario. However, the adverse market shock may also feature risk factor shocks that are substantively different from those included in the severely adverse scenario, in order to provide useful information to supervisors. As in the case of the macroeconomic scenario, the market shock component in the adverse scenario can be developed in a number of different ways.

The adverse scenario could be differentiated from the severely adverse scenario by the absolute size of the shock, the scenario design process (*e.g.*, historical events versus hypothetical events), or some other criteria. The Board expects that as the market shock component of the adverse scenario may differ qualitatively from the market shock component of the severely adverse scenario, the results of adverse scenarios may be useful in identifying a particularly vulnerable area in a trading company's positions.

There are several possibilities for the adverse scenario and the Board may use a different approach each year to better explore the vulnerabilities of companies with significant trading activity. One approach is to use a scenario based on some combination of historical events. This approach is similar to the one used for for the market shock in 2012, where the market shock component was largely based on the second half of 2008, but also included a number of risk factor shocks that reflected the significant widening of spreads for European sovereigns and financials in late 2011. This approach will provide some consistency each year and provide an internally consistent scenario with minimal implementation burden. Having a relatively consistent adverse scenario may be useful as it potentially serves as a benchmark against the results of the severely adverse scenario and can be compared to past stress tests. Another approach is to have an adverse scenario that is identical to the severely adverse scenario, except that the shocks are smaller in magnitude (*e.g.*, 100 basis points for adverse versus 200 basis points for severely adverse). This "scaling approach" generally fits well with an intuitive interpretation of "adverse" and "severely adverse." Moreover, since the nature of the moves will be identical between the two classes of scenarios, there will be at least directional consistency in the risk factor inputs between scenarios. While under this approach the adverse scenario will be superficially identical to the severely adverse, the logic underlying the severely adverse scenario may not be applicable. For example, if the severely adverse scenario was based on a historical scenario, the same could not be said of the adverse scenario. It is also remains possible, although unlikely, that a scaled adverse scenario actually will result in greater losses, for some companies, than the severely adverse scenario with similar moves of greater magnitude. For example, if some companies are hedging against tail outcomes then the more extreme trading book dollar losses may not correspond to the most extreme market moves. The market shock component of the adverse scenario in 2013 was largely based on the scaling approach where a majority of risk factor shocks were smaller in magnitude than the severely adverse scenario, but it also featured long-term interest rate shocks that were not part of the severely adverse market shock.

Alternatively, the market shock component of an adverse scenario could differ substantially from the severely adverse scenario with respect to the sizes and nature of the shocks. Under this approach, the market shock component could be constructed using some combination of historical and hypothetical events, similar to the severely adverse scenario. As a result, the market shock component of the adverse scenario could be viewed as an alternative to the severely adverse scenario and, therefore, it is possible that the adverse scenario could have larger losses for some companies than the severely adverse scenario.

Finally, the design of the adverse scenario for annual stress tests could be informed by the companies' own trading scenarios used for their BHC-designed scenarios in CCAR and in their mid-cycle company-run stress tests.20

6. Consistency between the macroeconomic scenarios and the market shock

As discussed earlier, the market shock comprises a set of movements in a very large number of risk factors that are realized instantaneously. Among the risk factors specified in the market shock are several variables also specified in the macroeconomic scenarios, such as short- and long-maturity interest rates on Treasury and corporate debt, the level and volatility of U.S. stock prices, and exchange rates.

The market shock component is an add-on to the macroeconomic scenarios that is applied to a subset of companies, with no assumed effect on other aspects of the stress tests such as balances, revenues, or other losses. As a result, the market shock component may not be always directionally consistent with the macroeconomic scenario. Because the market shock is designed, in part, to mimic the effects of a sudden market dislocation, while the macroeconomic scenarios are designed to provide a description of the evolution of the real economy over two or more years, assumed economic conditions can move in significantly different ways. In effect, the market shock can simulate a market panic, during which financial asset prices move rapidly in unexpected directions, and the macroeconomic assumptions can simulate the severe recession that follows. Indeed, the pattern of a financial crisis, characterized by a short period of wild swings in asset prices followed by a prolonged period of moribund activity, and a subsequent severe recession is familiar and plausible.

As discussed in section 4.2.4, the Board may feature a particularly salient risk in the macroeconomic assumptions for the severely adverse scenario, such as a fall in an elevated asset price. In such instances, the Board may also seek to reflect the same risk in one of the market shocks. For example, if the macroeconomic scenario were to feature a substantial decline in house prices, it may seem plausible for the market shock to also feature a significant decline in market values of any securities that are closely tied to the housing sector or residential mortgages.

In addition, as discussed in section 4.3, the Board may specify the macroeconomic assumptions in the adverse scenario in such a way as to explore risks qualitatively different from those in the

20 12 CFR 252.~~145.~~55

severely adverse scenario. Depending on the nature and type of such risks, the Board may also seek to reflect these risks in one of the market shocks as appropriate.

7. Timeline for scenario publication

The Board will provide a description of the macroeconomic scenarios by no later than November 15 ~~of~~, 2014 (for the stress test cycle beginning October 1, 2014) and no later than February 15 (for each ~~year.~~stress test cycle beginning thereafter). During the period immediately preceding the publication of the scenarios, the Board will collect and consider information from academics, professional forecasters, international organizations, domestic and foreign supervisors, and other private-sector analysts that regularly conduct stress tests based on U.S. and global economic and financial scenarios, including analysts at the covered companies. In addition, the Board will consult with the FDIC and the OCC on the salient risks to be considered in the scenarios. For the stress test cycle beginning October 1, 2014, the Board expects to conduct this process in July and August of 2014 and to update the scenarios based on incoming macroeconomic data releases and other information through the end of October. For each stress test cycle beginning thereafter, the Board expects to conduct this process in October and November of each year and to update the scenarios based on incoming macroeconomic data releases and other information through the end of ~~October~~January.

The Board expects to provide a broad overview of the market shock component along with the macroeconomic scenarios. The Board will publish the market shock templates by no later than December 1 of each year, and intends to publish the market shock earlier in the stress test and capital plan cycles to allow companies more time to conduct their stress tests.

Table 1 – Classification of U.S. Recessions

Peak	Trough	Severity	Duration (quarters)	Decline in Real GDP	Change in the Unemployment Rate during the Recession	Total change in the Unemployment rate (incl. after the Recession)
1957Q3	1958Q2	Severe	4 (Medium)	-3.6	3.2	3.2
1960Q2	1961Q1	Moderate	4 (Medium)	-1.0	1.6	1.8

1969Q4	1970Q4	Moderate	5 (Medium)	-0.2	2.2	2.4
1973Q4	1975Q1	Severe	6 (Long)	-3.1	3.4	4.1
1980Q1	1980Q3	Moderate	3 (Short)	-2.2	1.4	1.4
1981Q3	1982Q4	Severe	6 (Long)	-2.8	3.3	3.3
1990Q3	1991Q1	Mild	3 (Short)	-1.3	0.9	1.9
2001Q1	2001Q4	Mild	4 (Medium)	0.2	1.3	2.0
2007Q4	2009Q2	Severe	7 (Long)	-4.3	4.5	5.1
Average	--	Severe	6	-3.5	3.7	3.9
Average	--	Moderate	4	-1.1	1.8	1.8
Average	--	Mild	3	-0.6	1.1	1.9

Source: Bureau of Economic Analysis, National Income and Product Accounts, Comprehensive Revision on July 31, 2013.

Subpart O—Enhanced Prudential Standards for Foreign Banking Organizations With Total Consolidated Assets of $50 Billion or More and Combined U.S. Assets of $50 Billion or More

12 C.F.R. § 252.153(e)

§ 252.153 U.S. intermediate holding company requirement for foreign banking organizations with U.S. non-branch assets of $50 billion or more.

(e) Enhanced prudential standards for U.S. intermediate holding companies~~—(~~.

(1) Applicability—(i) Ongoing application. Subject to the initial applicability provisions in paragraph (e)(1)(ii) of this section, a U.S. intermediate holding company must comply with the capital, risk management, and liquidity requirements set forth in paragraphs (e)(2~~) through~~)(i), (3), and (4) of this section beginning on the date it is required to be established, ~~and must~~comply with the capital plan requirements set forth in paragraph (e)(2)(ii) of this section in accordance with § 225.8(c)(2), and comply with the stress test requirements set forth in paragraph (e)(5) beginning with the stress test cycle the calendar year following that in which it becomes subject to regulatory capital requirements.

(ii) Initial applicability—(A) General. A U.S. intermediate holding company required to be established by July 1, 2016 must comply with the risk-based capital~~ and capital plan requirements~~, risk management, and liquidity requirements set forth in paragraphs (e)(2~~) through~~)(i), (3), and (4) of this section beginning on July 1, 2016~~.~~, and comply with the capital planning requirements set forth in (e)(2)(ii) of this section in accordance with § 225.8(c)(2).

(B) Transition provisions for leverage. (1) A U.S. intermediate holding company required to be established by July 1, 2016 must comply with the leverage capital requirements set forth in paragraph (e)(2)(i) of this section beginning on January 1, 2018, provided that each subsidiary bank holding company and insured depository institution controlled by the foreign banking organization immediately prior to the establishment or designation of the U.S. intermediate holding company, and each bank holding company and insured depository institution acquired by the foreign banking organization after establishment of the intermediate holding company, is subject to leverage capital requirements under 12 CFR part 217 until December 31, 2017.

(2) The Board may accelerate the application of the leverage ratio to a U.S. intermediate holding company if it determines that the foreign banking organization has taken actions to evade the application of this subpart.

(C) Transition provisions for stress testing. (1) A U.S. intermediate holding company required to be established by July 1, 2016 must comply with the stress test requirements set forth in paragraph (e)(5) of this section beginning on ~~October~~January 1, ~~2017~~2018, provided that each subsidiary bank holding company and insured depository institution controlled by the foreign banking organization immediately prior to the establishment or designation of the U.S. intermediate holding company, and each bank holding company and insured depository institution acquired by the foreign banking organization after establishment of the intermediate holding company, must comply with the stress test requirements in subparts B, E, or F of this subpart, as applicable, until ~~September 30~~December 31, 2017.

(2) The Board may accelerate the application of the stress testing requirements to a U.S. intermediate holding company if it determines that the foreign banking organization has taken actions to evade the application of this subpart.