

## Federal Banking Regulators Propose EGRRCPA-Conforming Amendments to Stress Testing Rules

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The Federal Reserve, FDIC and OCC (the Agencies) have each released proposed amendments to their respective stress testing rules for national banks, savings associations, state member banks and state non-member banks (collectively, IDIs) that would implement Section 401 of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the EGRRCPA) as it applies to supervisory and company-run stress testing requirements (the Proposals).<sup>[1]</sup> The Proposals generally address company-run stress testing requirements for IDIs, but certain elements of the Federal Reserve's proposal also apply to bank holding companies (BHCs), covered savings and loan holding companies (SLHCs), U.S. intermediate holding companies of foreign banking organizations (IHCs) and any nonbank financial companies supervised by the Federal Reserve, and supervisory stress tests. The proposed amendments would apply to stress testing cycles beginning on January 1, 2020.

On October 31, 2018, the Federal Reserve also proposed rules that would tailor the enhanced prudential standards (EPS), including stress testing requirements, applicable to BHCs and covered SLHCs. For additional information on these proposed changes to supervisory and company-run stress tests for these firms, our visual memorandum on the Federal Reserve's October 31 proposal is available [here](#).

### Asset Threshold for Company-Run Stress Tests

The Proposals would, as required by the EGRRCPA, revise the minimum threshold for IDIs required to conduct company-run stress tests from \$10 billion in total consolidated assets to \$250 billion in total consolidated assets.<sup>[2]</sup> Due to the

revised asset threshold, the Proposals would also eliminate existing asset thresholds for the two sub-categories of IDIs with total consolidated assets from \$10 billion to \$50 billion and more than \$50 billion.

The Federal Reserve's Proposal would also revise its EPS tailoring proposal to clarify that a Category II or Category III SLHC would only become subject to company-run stress testing requirements in accordance with the applicable transition provision once the SLHC was subject to minimum capital requirements.

## **Frequency of IDI Company-Run Stress Tests and Transition Periods**

### *Frequency*

The EGRRCPA amended the Dodd-Frank Act requirement to conduct company-run stress tests from an “annual” basis to a “periodic” basis. To implement this change, the Proposals would require company-run stress tests for IDIs to be conducted every other year, in even numbered years, beginning on January 1, 2020. This proposed amendment would align the frequency of IDI company-run stress tests with the proposed frequency for BHCs and covered SLHCs in the Federal Reserve's EPS tailoring proposal.

IDIs that are subsidiaries of U.S. GSIBs or BHCs or covered SLHCs that have more than \$700 billion in total consolidated assets or cross-jurisdictional activity of more than \$75 billion (i.e., Category I and II banking organizations under the Federal Reserve's October 31 EPS proposal), however, would be required to conduct company-run stress tests on an annual basis, consistent with the requirement for their holding company to conduct annual company-run stress tests.

In addition, the requirement that boards of directors of IDIs must review and approve the policies and procedures of stress testing processes at least annually would be revised to require review and approval “no less than each year a stress test is conducted” in order to align the review process with the IDI's stress testing cycle (i.e., annual or biennial, as applicable).<sup>[3]</sup>

### *Transition*

An IDI that crosses the \$250 billion asset threshold and becomes subject to company-run stress testing requirements for the first time in a given year would be

subject to the requirements as of January 1 of the following year if it crosses the threshold between January 1 and March 31 of the given year. For an IDI that becomes subject to company-run stress testing between April 1 and December 31 of a given year, it would not be subject to company-run stress testing requirements until January 1 of the second year following the given year. This means, for example, that an IDI that exceeds \$250 billion in total consolidated assets for the first time on April 1, 2023, would not be subject to company-run stress testing until January 1, 2026 (on the basis that, as the frequency for such an IDI would be biennial on even years, 2026 would be the first even year of applicability).

For an IDI already subject to two-year stress testing cycles that subsequently becomes subject to annual stress testing because its holding company becomes a Category I or Category II firm, the Proposals would not establish a similar transition period and the IDI would begin annual company-run stress testing as of the next year.

## **Elimination of the “Adverse” Scenario**

The Proposals implement the EGRRCPA’s requirement to reduce the required number of economic scenarios in company-run stress tests from three to two by eliminating the “adverse” scenario and leaving the “baseline” and “severely adverse” scenarios. To accommodate this change, the Proposals would also revise the definition of the “severely adverse” scenario to define its greater severity relative to the “baseline” scenario rather than the “adverse” scenario.

In addition, the Federal Reserve’s Proposal would remove the “adverse” scenario and make corresponding conforming changes to the Federal Reserve’s company-run and supervisory stress testing requirements applicable to BHCs, covered SLHCs, IHCs and any nonbank financial company supervised by the Federal Reserve, as well as the Federal Reserve’s Policy Statement on the Scenario Design Framework for Stress Testing.

Comments on each of the Proposals are due February 19, 2019.

[1] Our visual memorandum on the EGRRCPA is available [here](#).

[2] Consistent with the existing text of Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the requirements would apply to IDIs with “more than” \$250 billion in total consolidated assets.

[3] The Federal Reserve’s Proposal made the same conforming change to the company-run stress testing requirements applicable to BHCs, covered SLHCs and IHCs.