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Transmittal – See OCC 2020-11

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Stress Testing: Final Rule for Dodd-Frank Act Section 165(i)

Summary

The Office of the Comptroller of the Currency (OCC) published in the *Federal Register* on October 9, 2012, a final rule that implements section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) that requires certain companies to conduct annual stress tests pursuant to regulations prescribed by their respective primary financial regulatory agencies. Specifically, this rule requires national banks and federal savings associations with total consolidated assets over \$10 billion (covered institutions) to conduct an annual stress test as prescribed by the rule.

Background

The OCC developed this rule in coordination with the Federal Reserve Board (Board) and the Federal Insurance Office, as required by section 165(i)(2)(c) of the Dodd-Frank Act; the OCC also coordinated with the Federal Deposit Insurance Corporation (FDIC). The Board and the FDIC have issued separate final rules with respect to their supervised entities. For purposes of this rule, "stress test" is defined as a process to assess the potential impact of hypothetical economic conditions (scenarios) on the consolidated earnings, losses, and capital of a covered institution over a set period (the planning horizon), taking into account the current condition of the covered institution and including its risks, exposures, strategies, and activities.

The stress tests conducted by covered institutions under the final rule will provide forward-looking information to supervisors to assist in their overall assessments of a covered institution's capital adequacy and to aid in identifying downside risks and the potential impact of adverse outcomes on the covered institution's capital adequacy. In addition, the OCC may use stress tests to determine whether a covered institution needs additional analytical techniques and exercises to identify, measure, and monitor risks to the institution's financial soundness, and the OCC may require a covered institution to implement such techniques and exercises in conducting its stress tests. These stress tests are expected to support ongoing improvement in a covered institution's stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning.

The OCC expects that the annual stress tests required under the final rule will be only one component of the broader stress testing activities conducted by covered institutions. In this regard, the OCC notes that the agencies have recently issued final joint guidance on "Stress Testing for Banking Organizations with More Than \$10 Billion in Total Consolidated Assets."¹ These broader stress testing activities should address the impact of a range of potentially adverse outcomes across a set of risk types affecting aspects of

To

Chief Executive Officers of All
National Banks and Federal
Savings Associations,
Department and Division Heads,
All Examining Personnel, and
Other Interested Parties

the covered institution's financial condition including, but not limited to, capital adequacy. In addition, a full assessment of a covered institution's capital adequacy should take into account a range of factors, including evaluation of its capital planning processes, the governance over those processes, regulatory capital measures, results of supervisory stress tests where applicable, and market assessments.²

Table 1 lists the key dates in the annual stress test cycle under the final rule, with differences as noted for covered institutions with \$50 billion or more in assets and covered institutions with between \$10 billion and \$50 billion in assets. As shown in Table 1, the annual stress test cycle consists of three key events: (1) distribution of the stress test scenarios by the OCC, (2) conducting of the stress test and submission of the Annual Stress Test Report, and (3) publication of required disclosures. For covered institutions with \$50 billion or more in assets this cycle will commence this year; for other covered institutions, the annual cycle will commence November 2013.

Table 1: Process Overview of Annual Stress Test Cycles for Covered Institutions

| Key Step | \$50 Billion and over | Between \$10 and \$50 Billion |
|---|-------------------------------|--------------------------------------|
| 1. OCC distributes scenarios for annual stress tests | By November 15 | By November 15 |
| 2. Covered institutions conduct annual stress test and submit Annual Stress Test Report to the OCC and the Board ³ | By January 5 | By March 31 |
| 3. Covered institutions make required public disclosures | Between March 15 and March 31 | Between June 15 and June 30 |

Further information

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¹See 77 FR 29458 (May 17, 2012).

²See OCC Bulletin 2012-16.

³If the January 5 or March 31 submission dates fall on a weekend, the submission must be received on the first business day after the weekend.

Related Link:

- [Final Rule \(PDF\)](#)

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