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Transmittal – See OCC 2020-11

Annual Stress Test: Notice of Proposed Rulemaking - Schedule Shift and Adjustments to Regulatory Capital Projections

Summary

The Office of the Comptroller of the Currency (OCC) proposes to adjust the timing of the annual stress testing cycle and to clarify the method used to calculate regulatory capital in the stress tests. The proposal also would provide that covered institutions will not have to calculate their regulatory capital requirements using the advanced approaches method in 12 CFR 3, subpart E, until the stress testing cycle beginning on January 1, 2016. The notice of proposed rulemaking was issued in the *Federal Register* on July 1, 2013, with a 60-day comment period.

To

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

Highlights

The proposal would

- shift the dates of the annual stress testing cycle by approximately three months. The stress testing cycle that, under the current rule, begins on October 1, 2015, would instead begin on January 1, 2016.
- provide that no covered institution is required to use the advanced approaches capital methodology in its stress testing projections until the stress testing cycle beginning on January 1, 2016.

Note for Community Banks

The annual stress test under section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) only applies to national banks and federal savings associations with more than \$10 billion in assets.

Background

Section 165(i) of the Dodd-Frank Act requires two types of stress tests. Section 165(i)(1) requires the Board of Governors of the Federal Reserve System (Federal Reserve Board) to conduct annual stress tests of holding companies with \$50 billion or more in assets (“supervisory stress tests”). Section 165(i)(2) requires the federal banking agencies to issue regulations requiring financial companies with more than \$10 billion in assets to conduct annual stress tests themselves (“company-run stress tests”).

In October 2012, the OCC, the Federal Reserve Board, and the Federal Deposit Insurance Corporation issued final rules implementing the company-run stress tests required by the Dodd-Frank Act. Under these final rules, covered institutions with \$50 billion or more in

assets are required to conduct the company-run stress tests at the end of the calendar year, when there are often other demands on staff. Under the current OCC stress testing rule, the OCC distributes stress scenarios by November 15.¹ Covered institutions use their financial position as of September 30 (“as of date”) and must make projections that estimate their financial position under the different stress scenarios. Covered institutions with \$50 billion or more in assets must submit the results of their stress tests by January 5 and are required to publish a summary of their stress test results between March 15 and March 31. Covered institutions with \$10 billion to \$50 billion in assets are required to submit their stress test results to the OCC by March 31 and publish a summary of their results between June 15 and June 30.

On October 11, 2013, the OCC published revisions to its regulatory capital rules implementing the Basel III international capital standards (Basel III framework).² The OCC is now proposing to adjust the schedule contained in its stress testing rule to relieve certain covered institutions of the burden associated with the January 5 submission deadline and to clarify the method to be used to calculate regulatory capital in the stress tests. The proposal would also clarify when covered institutions are required to estimate their minimum regulatory capital using the Basel III advanced approaches methodology.

Proposal

The OCC is proposing to shift the dates of the stress testing cycle by approximately three months. This would relieve covered institutions with over \$50 billion in assets of the obligation to complete their stress testing submissions by January 5, a time of year when these institutions have other year-end obligations. The OCC believes that the annual stress test is an important risk-management tool, and covered institutions should conduct these tests at a time when they are better able to manage their resources. The stress testing cycle that, under the current rule, begins on October 1, 2015, would instead begin on January 1, 2016. The following tables summarize the proposed date changes.

Table 1: Revised Annual Stress Test Timeline for Covered Institutions With \$50 Billion or More in Assets

Action required	Current rule	Proposed rule
“As of” date for financial data used by stress test	September 30	December 31
Distribution of stress scenarios by OCC	By November 15	By February 15
Submission of stress test results	By January 5	By April 7
Disclosure of results summary	Between March 15 and March 31	Between June 15 and July 15 except no earlier than Federal Reserve Board publication of the supervisory stress test results of the bank holding company

Table 2: Revised Annual Stress Test Timeline for Covered Institutions With Between \$10 Billion and \$50 Billion in Assets

Action required	Current rule	Proposed rule
“As of” date for financial data used by stress test	September 30	December 31
Distribution of stress scenarios by OCC	By November 15	By February 15
Submission of stress test results	By March 31	By July 31
Disclosure of results summary	Between June 15 and June 30	Between October 15 and October 31

The current OCC stress testing rule requires covered institutions to estimate the impact of stress scenarios on “the covered institution’s regulatory capital levels and ratios applicable to the covered institution under 12 CFR part 3 (for national banks) or part 167 (for federal savings associations), as applicable, and any other capital ratios specified by the OCC.”³ A national bank or federal savings association that is an advanced approaches banking organization is required to use the advanced approaches to calculate its minimum regulatory capital ratios if it has conducted a satisfactory parallel run.⁴ This proposal would provide that no covered institution is required to use the advanced approaches in its stress testing projections until the stress testing cycle beginning on January 1, 2016—even if an organization has previously exited parallel run.

On February 14, 2014, the OCC announced that certain national banks had completed a successful parallel run. Given the operational complexity associated with incorporating the advanced approaches into the stress testing process, the proposal would clarify that incorporating the advanced approaches into stress testing will be deferred for one stress testing cycle. The transition period would provide the OCC with sufficient time to integrate the advanced approaches into its stress testing examination processes and to provide guidance to advanced approaches banking organizations regarding supervisory expectations on the use of the advanced approaches in stress testing projections.

Further Information

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¹ These scenarios provided by the OCC reflect a minimum of three sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios.

² 78 Fed. Reg. 62018.

³ 12 CFR 46.6(a)(2).

⁴ A satisfactory parallel run is defined as a period of no less than four consecutive calendar quarters during which a banking organization complies with certain qualification requirements. 12 CFR 3.21(c).

Related Link

- ["Annual Stress Test—Schedule Shift and Adjustments to Regulatory Capital Projections"](#)

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