

**FEDERAL RESERVE SYSTEM****12 CFR Parts 225 and 252****[Regulations Y and YY; Docket No. 1492]****RIN 7100-AE 20****Amendments to the Capital Plan and Stress Test Rules****AGENCY:** Board of Governors of the Federal Reserve System (Board).**ACTION:** Notice of proposed rulemaking with request for comment.

**SUMMARY:** The Board invites comment on a notice of proposed rulemaking that would amend the capital plan and stress test rules to modify, following a transition period, the start date of the capital plan and stress test cycles from October 1 of a calendar year to January 1 of the following calendar year. The proposed rule would make other changes to the rules, including amending the capital plan rule to limit a bank holding company's ability to make capital distributions to the extent that the bank holding company's actual capital issuances are less than the amount indicated in its capital plan under baseline conditions, measured on a quarterly basis. The proposed rule would clarify application of the capital plan rule to a bank holding company that is a subsidiary of a U.S. intermediate holding company of a foreign banking organization and the characteristics of a stressed scenario to be included in company run stress tests. The proposed rule also would revise the Board's Policy Statement on the Scenario Design Framework for Stress Testing and the Board's Regulation YY to reflect the revisions to the start date of the stress test cycle.

**DATES:** Comments must be received on or before August 11, 2014.**ADDRESSES:** You may submit comments, identified by Docket No. 1492; RIN 7100-AE 20, by any of the following methods:

*Agency Web site:* <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/apps/foia/proposedregs.aspx>.

*Federal eRulemaking Portal:* <http://www.regulations.gov>. Follow the instructions for submitting comments.

*Email:* [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include docket number in the subject line of the message.

*Facsimile:* (202) 452-3819 or (202) 452-3102.

*Mail:* Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and

Constitution Avenue NW., Washington, DC 20551.

All public comments are available from the Board's Web site at <http://www.federalreserve.gov/apps/foia/proposedregs.aspx> as submitted, unless modified for technical reasons.

Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Streets NW.) between 9:00 a.m. and 5:00 p.m. on weekdays.

**FOR FURTHER INFORMATION CONTACT:** Lisa Ryu, Deputy Associate Director, (202) 263-4833, Constance Horsley, Assistant Director, (202) 452-5239, Mona Touma Elliot, Senior Supervisory Financial Analyst, (202) 912-4688, Ann McKeehan, Senior Supervisory Financial Analyst, (202) 973-6903, Holly Kirkpatrick, Senior Financial Analyst, (202) 452-2796, or Joseph Cox, Financial Analyst, (202) 452-3216, Division of Banking Supervision and Regulation; Laurie Schaffer, Associate General Counsel, (202) 452-2272, Ben McDonough, Senior Counsel, (202) 452-2036, or Christine Graham, Counsel, (202) 452-3005, Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551. Users of Telecommunication Device for Deaf (TDD) only, call (202) 263-4869.

**SUPPLEMENTARY INFORMATION:****I. Background**

The Board's capital planning and stress testing framework for bank holding companies with total consolidated assets of \$50 billion or more (large bank holding companies) is based on the Board's capital plan rule (section 225.8 of Regulation Y) and stress test rules (subparts B, E, and F of Regulation YY). The Board is seeking comment on a proposed rule to clarify aspects of the rules and, based in part on industry feedback, adjust the timeframe for the annual submissions of capital plans and for the conduct of company-run and supervisory stress tests.

Pursuant to the Board's capital plan rule and related supervisory process, the Comprehensive Capital Analysis and Review (CCAR), the Federal Reserve assesses the internal capital planning process of each large bank holding company and its ability to maintain sufficient capital to continue its operations under expected and stressful conditions.<sup>1</sup> Under the capital plan rule, a large bank holding company is

required to submit an annual capital plan to the Federal Reserve that includes a detailed description of the following: The company's internal processes for assessing its capital adequacy; the policies governing capital actions such as common stock issuances, dividends and share repurchases; and all planned capital actions over a nine-quarter planning horizon (planning horizon). In addition, the bank holding company's capital plan must contain estimates of its regulatory capital ratios and its tier 1 common ratio under expected conditions and under a range of stressed scenarios over the planning horizon.<sup>2</sup> A capital plan also must include a discussion of how a large bank holding company will maintain regulatory capital ratios above the regulatory minimums and above a tier 1 common ratio of 5 percent under expected conditions and stressed scenarios.<sup>3</sup>

The capital plan rule is designed to work in conjunction with the stress test rules adopted by the Board to implement the stress testing requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (stress test rules).<sup>4</sup> The stress test rules establish a framework for the Board to conduct supervisory stress tests of large bank holding companies and require these bank holding companies to conduct annual and mid-cycle company-run stress tests.<sup>5</sup> In addition, the stress test rules require state member banks and savings and loan holding companies with total consolidated assets of more than \$10 billion and bank holding companies with total consolidated assets of more than \$10 billion but less than \$50 billion to conduct annual company-run stress tests.<sup>6</sup>

In February 2014, the Board issued a final rule implementing enhanced prudential standards for U.S. bank holding companies and foreign banking organizations with total consolidated assets of \$50 billion or more (enhanced prudential standards rule). For U.S.

<sup>2</sup> See generally 12 CFR 225.8.

<sup>3</sup> *Id.* at § 225.8(d)(2)(i)(B).

<sup>4</sup> See 12 USC 5365(i)(1) and 12 CFR part 252.

<sup>5</sup> The changes in this proposed rule would apply to nonbank financial companies supervised by the Board once they become subject to stress test requirements and to U.S. intermediate holding companies of foreign banking organizations in accordance with the transition provisions of the final rule incorporating enhanced prudential standards for U.S. bank holding companies and foreign banking organizations with total consolidated assets of \$50 billion or more. (79 FR 17240 (March 27, 2014)) For simplicity, this preamble discussion of proposed amendments generally refers only to bank holding companies.

<sup>6</sup> 77 FR 62378 (October 12, 2012) (codified at 12 CFR part 252, subparts E and F).

bank holding companies, the enhanced prudential standards rule incorporates the capital plan rule as an enhanced risk-based capital and leverage requirement and establishes enhanced liquidity and risk-management requirements. For foreign banking organizations, the enhanced prudential standards rule implements risk-based and leverage capital, liquidity, risk-management, and stress-testing requirements. The enhanced prudential standards rule also requires that a foreign banking organization with U.S. non-branch assets of \$50 billion or more establish a U.S. intermediate holding company that is generally subject to the same prudential standards as a U.S. bank holding company, including capital planning and stress testing requirements.

Although the enhanced prudential standards rule and capital plan rule establish baseline requirements for all banking organizations that are subject to the rules, the Board has tailored its expectations for companies of different sizes, scope of operations, activities, and systemic importance.<sup>7</sup> For example, the Board has significantly heightened supervisory expectations for the largest and most complex bank holding companies in all aspects of capital planning and expects these bank holding companies to have capital planning practices that incorporate existing leading practices.<sup>8</sup> In addition, the Board recognizes the challenges facing bank holding companies that are new to CCAR and further recognizes that these bank holding companies will continue to develop and enhance their capital planning systems and processes to meet supervisory expectations.<sup>9</sup>

## II. Proposed Revisions to the Capital Plan and Stress Test Rules

### a. Timing of Actions in the Capital Plan and Stress Test Rules

#### i. Timing of Capital Plan and Stress Test Cycles

Under the current capital plan and stress test rules, the capital plan and stress test cycles begin on October 1, and bank holding companies are required to submit their capital plans and annual company-run stress test results to the Board by January 5 of the following calendar year using data as of September 30 of the preceding calendar year. This timing obligates these companies to conduct company-run stress tests and complete annual capital

plans at the end of the calendar year, when companies are often resource-constrained due to other financial reporting requirements. Subject to a transition period as described below, the proposed rule would shift the timing by one calendar quarter, such that the capital plan and stress test cycles would begin January 1 and bank holding companies would be required to submit their capital plans and stress test results to the Board by April 5.

Pursuant to the proposed timing revisions, for the stress test cycle that begins January 1, 2016, and thereafter, companies would conduct the annual company-run stress tests using data as of December 31 of the preceding calendar year, and the Board would provide scenarios that companies must use in their company-run stress tests by February 15. The Board would provide a description of the trading and counterparty component of supervisory scenarios for bank holding companies subject to that component by March 1. Following a notice and response procedure, the Board may require a bank holding company to include additional scenarios or scenario components in its stress test, such as a counterparty default component. The Board would notify the bank holding company of this requirement by December 31 of the preceding calendar year and provide the description of any additional components and scenarios by March 1.

The current rule requires bank holding companies to disclose the results of their annual company-run stress tests during the period beginning March 15 and ending March 31. Under the proposed rule, for the stress test cycle that begins January 1, 2016, and for stress test cycles thereafter, large bank holding companies and their state member banks subsidiaries would be required to disclose publicly the results of their annual company-run stress tests within 15 calendar days after the date on which the Board discloses the results of the bank holding company's supervisory stress test. Under the proposed rule, the Board would disclose these results no later than June 30. The Board would notify companies of the date on which it expects to publicly disclose a summary of its analyses at least two weeks before the expected disclosure date.

As noted, large bank holding companies are also subject to mid-cycle stress tests, in which bank holding

companies design their own stress scenarios based on the definitions in the Board's stress test rules. Under the proposed rule, for the stress test cycle that begins January 1, 2016, and for stress test cycles thereafter, large bank holding companies would be required to conduct the mid-cycle stress test using data as of June 30 of that year. Following a notice and response procedure, the Board may require a bank holding company to use one or more additional components or scenarios in this stress test. The Board would notify the bank holding company of this requirement by June 30 and provide the description of any additional components and scenarios by September 1. Bank holding companies would report the results of the mid-cycle stress test to the Board by October 5 and would publicly disclose the results in the period beginning October 5 and ending October 20, unless the date is extended by the Board.

The proposed rule would include a transition period to incorporate the proposed timing changes to the capital plan and stress test cycles. As in the current rule, the capital plan cycle scheduled to begin on October 1, 2014, would begin on that date without change, and large bank holding companies would be required to submit a capital plan to the Board by January 5, 2015. The Board would provide the company with a notice of non-objection or objection by March 31, 2015. In order to provide a transition to the proposed timing, the Federal Reserve's objection or non-objection to a 2015 capital plan would cover a five-quarter period commencing with the second quarter of 2015 and extending through the second quarter of 2016.

The 2015 mid-cycle stress tests would be based on data as of March 31, 2015, and large bank holding companies would be required to report their results to the Board by July 5, 2015. As discussed in section II.a.iii of this preamble, however, the proposed rule would shift the disclosure timeline of the 2015 mid-cycle stress test results to be the period between July 5 and July 20, 2015.

Table 1 below describes the relevant dates for stress test and capital plan actions that would be taken by the Board and companies during and after the proposed transition period.

<sup>7</sup> Capital Planning at Large Bank Holding Companies: Supervisory Expectations and Range of Current Practice (August 19, 2013), p. 3, available

at: <http://www.federalreserve.gov/bankinforeg/bcreg20130819a1.pdf>.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

TABLE 1—KEY DATES OF PROPOSED TRANSITION TIMELINE FOR ANNUAL CAPITAL PLAN AND STRESS TEST CYCLES FOR LARGE BANK HOLDING COMPANIES (LARGE BHC) AND STATE MEMBER BANKS THAT ARE SUBSIDIARIES OF LARGE BANK HOLDING COMPANIES

For cycle beginning October 1, 2014	For cycle beginning January 1, 2016, and thereafter	Supervisory stress test action	Company-run stress test action	Capital plan action
September 30, 2014 .....	December 31 of the preceding calendar year.	As-of date for capital plan and stress test cycles.		
By September 30, 2014	By December 31 of the preceding calendar year.	.....	Board notifies a large BHC that it will require the company to use one or more additional scenarios.	
By November 15, 2014	By February 15 .....	Board publishes scenarios for upcoming annual cycle.		
By December 1, 2014 ...	By March 1 .....	.....	Board communicates description of any additional components or scenarios to a large BHC.	Large BHCs submit capital plan (including results of bank holding company-run stress tests). Board responds to a large BHC's capital plan and publicly discloses the results.
By January 5, 2015 .....	By April 5 .....	.....	Large BHCs submit required regulatory report to the Board on their stress tests.	
By March 31, 2015 .....	By June 30 .....	Board publishes summary results of the supervisory stress test.	Companies disclose summary results of the annual company-run stress test <sup>10</sup> .	
By March 31, 2015 .....	By June 30 .....	.....	Board notifies a large BHC that it will require the company to use one or more additional scenarios in the mid-cycle stress test.	
By June 1, 2015 .....	By September 1 .....	.....	Board communicates description of any additional components or scenarios to a large BHC in the mid-cycle stress test.	
By July 5, 2015 .....	By October 5 .....	.....	Large BHCs submit required regulatory report to the Board on their mid-cycle stress test.	
July 5–July 20 .....	October 5–October 20	.....	Large BHCs disclose results of their mid-cycle stress test.	

The proposal would make corresponding timing changes to the stress testing requirements for other bank holding companies, savings and loan holding companies, and state

member banks.<sup>11</sup> For the stress testing cycle that would begin on January 1, 2016, these entities would be required to submit the results of their company-run stress tests to the Board by July 31

and publicly disclose those results in the period beginning October 15 and ending October 31.<sup>12</sup> Table 2 below describes these proposed changes.

<sup>10</sup> As discussed in section III.a.ii of this preamble, companies would disclose summary results within 15 calendar days after the Board discloses the summary results of its supervisory stress test.

<sup>11</sup> Under the current stress test rules, savings and loan holding companies are subject to the stress test requirements beginning with the stress test cycle that commences in the year after the year in which the company becomes subject to the Board's minimum regulatory capital requirements, unless the Board accelerates or extends that date. Savings

and loan holding companies (other than those substantially engaged in commercial activities or insurance underwriting activities) are subject to the Board's capital requirements in the Board's Regulation Q beginning on January 1, 2015. The Board has not applied capital requirements to savings and loan holding companies that are substantially engaged in commercial activities or insurance underwriting activities to date. The Board is currently working on developing an appropriate capital regime for those institutions.

<sup>12</sup> As compared to the current rule, the proposed rule would provide bank holding companies and savings and loan holding companies with total consolidated assets of more than \$10 billion but less than \$50 billion and state member banks that are not covered company subsidiaries with an additional 30 days to report the results of their stress tests to the Board. This change is intended to further tailor the rule for these companies by providing them an additional month to conduct stress tests.

TABLE 2—KEY DATES OF PROPOSED TRANSITION TIMELINE FOR ANNUAL STRESS TEST CYCLE FOR BANK HOLDING COMPANIES AND SAVINGS AND LOAN HOLDING COMPANIES WITH TOTAL CONSOLIDATED ASSETS BETWEEN \$10–\$50 BILLION AND STATE MEMBER BANKS THAT ARE NOT SUBSIDIARIES OF LARGE BANK HOLDING COMPANIES

For cycle beginning October 1, 2014	For cycle beginning January 1, 2016, and thereafter	Company-run stress test action
By September 30, 2014 .....	By December 31 of the preceding calendar year.	Board notifies a company that it will require the company to use one or more additional scenarios.
By November 15, 2014 .....	By February 15 .....	Board publishes scenarios for upcoming annual cycle.
By December 1, 2014 .....	By March 1 .....	Board communicates description of any additional components or scenarios to company.
By March 31, 2015 .....	By July 31 .....	Companies submit required regulatory report to the Board on their stress tests. <sup>13</sup>
June 15, 2015 through June 30 .....	October 15 through October 31 .....	Companies disclose summary results of the annual company-run stress test.

ii. Transition Provisions for Capital Plan and Stress Test Rules

The proposal would clarify and revise the transition provisions of the capital plan and stress test rules to take into account the proposed timing changes.

Transition Provisions in the Capital Plan Rule

Under the current capital plan rule, a bank holding company that meets the \$50 billion asset threshold (based on the as of date for its last FR Y–9C filing) for the first time after January 5 of a given calendar year will not be subject to the requirements to file a capital plan with the Board, resubmit its capital plan, or seek approval for certain distributions until the following year. Accordingly, a bank holding company that met the asset threshold on December 31, 2014, would be required to submit a capital plan on January 5, 2015, even though it would not have filed its FR Y–9C until after that date. The proposed rule would revise the transition period to provide that a bank holding company is subject to the capital plan rule 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 for the first time. Accordingly, a bank holding company that crosses the asset threshold after October 1, 2014, would not be required to file a capital plan on January 5, 2015. The first capital plan cycle it would be subject to would be the one starting on October 1, 2015 (modified to be January 1, 2016, under the proposed rule). The Board or the appropriate Reserve Bank with the concurrence of the Board, could require a bank holding company to submit a capital plan and be subject to the Board's approval and limitations on capital distributions at an earlier date

<sup>13</sup> Savings and loan holding companies with total consolidated assets of \$50 billion or more would be required to submit the required regulatory report to the Board in accordance with the schedule outlined above for large bank holding companies.

if the Board determines that the requirement is appropriate based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

Transition Provisions in the Stress Test Rules for Nonbank Financial Companies

Under the current stress test rules, nonbank financial companies supervised by the Board are subject to stress test requirements in the year after those firms become subject to minimum regulatory capital requirements. To provide additional flexibility for the Board to tailor the stress test rules to nonbank financial companies, the proposed rule would require the Board to notify a nonbank financial company prior to application of the stress test rules to the nonbank financial company. In general, nonbank financial companies would have between 9 and 18 months to comply with the stress test rules after they receive notice from the Board.

Transition Provisions in the Stress Test Rules for Bank Holding Companies, State Member Banks, and Savings and Loan Holding Companies

Under the current stress test rules, a firm is subject to the stress testing requirements in the year following the year in which it crosses the asset threshold. In light of a stress test cycle start date of October 1, these transition provisions provide a firm no less than three and no more than six quarters to come into compliance with the rules. The proposal would maintain this length of transition period, given the proposed January 1 cycle start date. Under the proposal, a company that crosses the relevant asset threshold on or before March 31 of a given year is subject to the stress test rules beginning on January 1 of the following year. If a company crosses the threshold after March 31, it is subject to the stress test

rules beginning January 1 of the second year following the given year.

The proposal would also revise the timing of the stress test rules applicable to bank holding companies that grow to have total consolidated assets of \$50 billion or more. Under the stress test rules for large bank holding companies, a large bank holding company must report and disclose the results of its stress tests on an accelerated timeframe, as compared to a bank holding company with more than \$10 billion but less than \$50 billion in total consolidated assets. The current applicability provisions provide a bank holding company that becomes subject to the large bank holding company stress test requirements with a several month transition period to comply with the accelerated stress test reporting and disclosure requirements. However, during that transition period, the large bank holding company would be required to submit a capital plan to the Board on the accelerated timeframe, and if the large bank holding company has a subsidiary state member bank, that subsidiary bank would be required to report and disclose the results of its stress tests on the accelerated timeframe.<sup>14</sup>

The proposed rule would provide that, if a bank holding company has more than \$10 billion but less than \$50 billion in total consolidated assets, and grows so that its total consolidated assets are equal to or greater than \$50 billion, the bank holding company would be subject to the company-run stress test requirements for bank holding companies with total consolidated assets of \$50 billion or more (subpart F) on the first day of the first stress test cycle following the date on which its average total consolidated assets equaled or exceeded \$50 billion. This

<sup>14</sup> Similar requirements apply to national banks and state nonmember banks under rules adopted by the OCC and FDIC. 12 CFR 46.8 (OCC); 12 CFR 325.207 (FDIC).

would align the reporting of stress test results with the submission of the capital plan and with the reporting and disclosure timeframe for state member banks, national banks, and state nonmember banks.

#### Transition Provisions in the Capital Plan and Stress Test Rules for Companies Subject to the Advanced Approaches

The capital plan rule requires a bank holding company to use the advanced approaches to estimate its regulatory capital for purposes of its capital plan submission 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. The stress test rules contain a parallel provision. As a result of the proposed change to the capital plan and stress tests cycle start date, a bank holding company, state member bank, and savings and loan holding company will be required to use the advanced approaches to estimate its regulatory capital in a given capital plan and stress test cycle if it receives notice that it is subject to the advanced approaches rule by December 31 of the prior year.

Question 1: What if any unintended consequences would the proposed revisions to the applicability sections create?

#### iii. Disclosure Date for Company-Run Annual Stress Tests

The public disclosures of the results of the CCAR, company-run stress tests, and supervisory stress tests are designed to complement one another. Under the Board's stress test rules, companies are required to publicly disclose the same types of information that the Federal Reserve discloses regarding the results of CCAR and its supervisory stress tests. This coordinated approach to public disclosure of the stress test and CCAR results promotes market discipline by facilitating a comparative understanding of this information, including the financial conditions and risks of the companies subject to the stress tests.

Under the current capital plan rule, a large bank holding company is required to conduct annual company run stress tests by January 5 and publicly disclose the results of those stress tests under the severely adverse scenario between March 15 and March 31. Each year, the Board discloses results of its supervisory stress test by March 31. In conducting its company-run stress test, a bank holding company uses the same scenarios and assumptions that the

Board uses in the supervisory stress scenario, but the bank holding company uses its internal models to project the effects of those scenarios on its financial condition.

For the stress test cycle beginning October 1, 2014 and thereafter, the proposed rule would require bank holding companies to publicly disclose the results of their company-run stress tests within 15 days after the Board discloses the results of that bank holding company's supervisory stress test, unless that time is extended by the Board. If, for example, the Board publicly disclosed supervisory stress test results on March 30, the bank holding company would have until April 14 to publicly disclose its company-run stress test results. Under the proposed rule, the Board would announce the expected date of public disclosure of the supervisory stress test results at least two weeks in advance. The Board does not expect to disclose the results of the supervisory stress test results before March 1 in 2015 or before June 1 in subsequent stress test cycles.

*Question 2: The Board solicits comment on the proposed timing changes to the stress test disclosure requirements. In particular, how much advance notice do companies require to prepare their stress test results?*

#### iv. Disclosure Date for Company-Run Mid-Cycle Stress Tests

Under the current stress test rules, a large bank holding company is required to conduct mid-cycle stress tests by July 5 and publicly disclose the results of those stress tests between September 15 and September 30. Because the mid-cycle stress tests are conducted by bank holding companies based on scenarios that are appropriate for their own risk profile and operations, the public disclosure should reflect a bank holding company's own views of its capital adequacy under the scenarios that it develops and employs. Unlike the annual stress tests, the Board does not engage in a CCAR-like, in-depth review of the mid-cycle stress test results.

The proposed rule would accelerate the public disclosure of the mid-cycle stress test results. Under the proposal, a large bank holding company would be required to publicly disclose the results of its mid-cycle stress test within fifteen days after it submits the results of its mid-cycle stress test to the Board, unless that time period was extended by the Board. This change would help to clarify that the Board does not play a direct role in the mid-cycle stress test process. It would also ensure that the results of the stress tests are more current when disclosed, thereby

promoting market discipline and a public understanding of the financial conditions and risks of the bank holding company.

Under the proposed rule, for purposes of the stress test cycle beginning October 1, 2014, a bank holding company would submit the results of its mid-cycle stress test by July 5 and would be required to publicly disclose the results of its stress test in the period between July 5 and July 20. For purposes of the stress test cycle beginning January 1, 2016, a bank holding company would submit the results of its mid-cycle stress test by October 5 and would be required to publicly disclose the results of its stress test in the period between October 5 and October 20.

#### b. Definition of a "BHC Stress Scenario"

A central goal of the capital plan rule is to ensure that large bank holding companies have robust internal practices and policies to determine their adequate amount and composition of capital, given the bank holding company's risk exposures and corporate strategies as well as supervisory expectations and regulatory standards. While the stress scenarios designed by the Federal Reserve for use in company-run and supervisory stress testing are helpful in showing the comparative effects of a downturn in the economy across companies, these scenarios are created with the overall banking industry in mind, rather than a focus on an individual company's risk profile. To mitigate this natural limitation and gain a deeper understanding of an individual company's vulnerabilities, the capital plan rule requires each large bank holding company to design its own stress scenario that is appropriate to the company's business model and portfolios. An evaluation of the appropriateness of this scenario is a key part of the qualitative assessment carried out by supervisors in CCAR.

Because a company's ability to design appropriate stress scenarios that take into consideration the company's specific vulnerabilities and operations has become a key area of focus in the Federal Reserve's assessment of capital plans, the proposed rule would add a new defined term, "BHC stress scenario" to describe the Federal Reserve's expectations regarding scenario design. "BHC stress scenario" would be defined in section 225.8(c) of the proposal as a scenario designed by the bank holding company that stresses the specific vulnerabilities of the bank holding company's risk profile and operations.

In addition, an appropriately tailored scenario is generally expected to result in an impact to projected pre-tax net income that is at least as severe as the results of the bank holding company's company run stress test under the Board's severely adverse scenario. While the BHC stress scenario is expected to be severe enough to result in a substantial negative impact on capital, a stress scenario that produces regulatory capital and tier 1 capital ratios that are lower than those produced under the Board's severely adverse scenario would not, by itself, demonstrate that the BHC has developed an appropriate BHC stress scenario. It is equally critical that the stress scenario be designed to capture potential risks stemming from a bank holding company's idiosyncratic positions and activities.

*Question 3: Under what circumstances, if any, should the definition of "BHC stress scenario" include, as a supplement, other types of stress scenarios?*

#### *c. Modifications to Capital Plan Resubmission Requirements Under the Capital Plan Rule*

Currently, the capital plan rule requires a large bank holding company to resubmit its capital plan within 30 calendar days if the Board objects to the capital plan. In certain instances, a bank holding company may not be able to remediate the underlying issues with the original capital plan before the end of the 30-day period for resubmission. This may occur if, for example, the Board has identified material outstanding supervisory issues or material deficiencies in the company's risk measurement and management practices or internal controls. In such cases when the deficiencies cannot be addressed in a 30-day timeframe, automatic resubmission requirements may be counterproductive by drawing a bank holding company's focus away from efforts to remediate the issues that gave rise to the Board's objection.

The proposed rule would provide flexibility in the event that the Board objects to a capital plan by permitting, rather than requiring, a large bank holding company to resubmit its capital plan. If the Board objects to a bank holding company's capital plan, the bank holding company may choose to resubmit its plan if it wishes to seek the Board's non-objection to its capital plan prior to the next capital plan cycle. As under the existing capital plan rule, the bank holding company would be limited to capital distributions approved by the Board or the appropriate Reserve Bank until the Board provides a non-

objection to the bank holding company's resubmitted capital plan. The proposed rule would continue to require a bank holding company to resubmit its capital plan within 30 days if it determines 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.

The proposed rule would not change the existing provisions in the capital plan rule whereby the Board may direct a large bank holding company to revise and resubmit its capital plan under the following circumstances: (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 stress scenario(s) developed by the bank holding company are not appropriate to its 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 that serve as a basis for the Board to object to a bank holding company's capital plan.<sup>15</sup> In determining whether there has been a material change in the bank holding company's risk profile, the Board may consider, among other factors, changes to a company's balance sheet and liquidity position or changes to market or financial conditions more generally.

#### *d. Consequences for Failure To Execute Planned Actions, Including Capital Issuances, Under the Capital Plan Rule*

When reviewing a capital plan, the Board considers the bank holding company's description of all planned capital actions over the planning horizon, including both capital issuances and capital distributions, and relies on these descriptions of the planned capital actions as a basis for its action on a capital plan. The proposed rule would limit a large bank holding company's ability to make capital distributions to the extent that the bank holding company does not execute planned capital issuances during the capital plan cycle. This proposed

change would address behavior observed in previous capital plan cycles, when some large bank holding companies included issuances of capital instruments in their capital plans, but did not execute these planned issuances.

This behavior has the potential to undermine the Board's assessment in CCAR of a large bank holding company's capital adequacy. The Board's quantitative assessment of capital adequacy in CCAR takes into account all planned capital issuances over the planning horizon. If a large bank holding company does not execute its planned capital issuances, the large bank holding company will have a lower amount of capital, all other things being equal. To mitigate the effects of this behavior, it has been the Board's practice to approve repurchases of common stock on both a net basis and a gross basis so that a company is required to reduce repurchases to the extent that it does not issue as much common stock as it had planned. However, this practice does not limit net capital distributions in cases where a bank holding company is paying a common stock dividend, but is not repurchasing its common stock, or where a bank holding company issues an amount of other forms of regulatory capital that is less than the amount projected in its capital plan.

The proposed rule would memorialize in the capital plan rule the Board's existing practice of approving repurchases of common stock on both a net basis and a gross basis and address other cases where a large bank holding company fails to execute the planned amount of capital issuances in its capital plan. Under the proposed rule, if the Federal Reserve does not object to a bank holding company's capital plan and the company raises a dollar amount of regulatory capital in a calendar quarter that is less than the amount that the bank holding company projected it would issue under baseline conditions in its capital plan, the bank holding company would be required to reduce the amount of its capital distributions on regulatory capital instruments with greater or equal ability to absorb losses, increase the 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 so 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. The proposed rule would

<sup>15</sup> 12 CFR 225.8(d)(4).

identify common equity tier 1 capital as having the greatest ability to absorb losses, followed by additional tier 1 capital, and tier 2 capital, each as defined in the Board's Regulation Q (12 CFR 217.2).

As a result of this provision, the net amounts of the company's actual capital issuances and capital distributions must be at least as great as the net amounts of capital issuances and capital distributions projected in the bank holding company's capital plan, in each case for a given calendar quarter.

*Example 1:* A large bank holding company's most recent capital plan included, for a given quarter, common stock issuance of \$50 million, dividends on common stock of \$50 million, and common stock repurchases of \$50 million (for a total of \$100 million in common stock distributions), but the bank holding company executed only \$25 million of its planned \$50 million in common issuances for that quarter. The proposed rule would require the bank holding company to reduce the amount of its distributions on common stock (i.e., the total of its planned common stock dividends and repurchases) for the quarter from \$100 million to \$75 million.

*Example 2:* A large bank holding company's most recent capital plan included, for a given quarter, common stock issuance of \$50 million, dividends on common stock of \$50 million, and preferred stock repurchases of \$50 million, but the bank holding company executed only \$25 million of its planned \$50 million in common issuances for that quarter. The proposed rule would require the bank holding company to offset the reduction in the issuance of common stock by a decrease in the dividends on common stock. The proposed rule would not allow the bank holding company to offset the reduction in common stock issuances with a reduction in preferred stock repurchases or with an increase in preferred stock issuance, because common stock has greater capacity to absorb losses than preferred stock.

*Example 3:* A large bank holding company's most recent capital plan included, for a given quarter, a common stock issuance of \$25 million, a subordinated debt issuance of \$50 million, common stock dividends of \$50 million, and subordinated debt repurchases of \$50 million for a given quarter, but the bank holding company failed to execute any of its projected subordinated debt issuance for that quarter. In this case, the proposed rule would require the bank holding company to reduce the amount of its gross distributions with respect to either

subordinated debt or common stock, or a combination of both, for the quarter by \$50 million. The bank holding company also could increase its common stock or preferred stock issuances to offset the lack of subordinated debt issuance.

If a large bank holding company had contemplated a capital issuance to support a merger or acquisition but did not consummate the merger or acquisition, it would be appropriate for the bank holding company to maintain the gross amount of its capital distributions. In this case, the proposal would provide that the bank holding company is not subject to limitations on its common stock capital distributions to the extent that a planned, but not executed, capital issuance, was associated with the planned merger or acquisition.

Under the proposed rule, as under the current capital plan rule, the Board may object to a large bank holding company's capital plan if 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. In the Board's view, a bank holding company's consistent failure to execute planned capital issuances may be indicative of shortcomings in its capital planning processes and may indicate that 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. Accordingly, the failure to execute capital issuances as indicated in its capital plan may form the basis for objection if the bank holding company is unable to explain the discrepancy between its planned and executed capital issuances.

Similarly, the Board has observed a practice whereby some large bank holding companies have included markedly reduced distributions in the final three quarters of the planning horizon (i.e., the quarters that are not subject to objection in the current capital plan cycle, sometimes referred to as "out-quarters") relative to the distributions in the preceding four quarters of the capital plan (i.e., the distributions that are subject to possible objection in the current cycle). In the next capital plan cycle, when the previous capital plan cycle's "out-quarters" become subject to possible objection, the bank holding companies submit a capital plan with significantly increased distributions relative to the previous capital plan cycle's "out-

quarters," while again submitting reduced distributions for the "out-quarters" of the new capital plan cycle.

This practice erodes the credibility of large bank holding companies' capital plans. A bank holding company should project its distributions in the final three quarters of their capital plans based on realistic assumptions about the future and in a manner broadly consistent with, or higher than, previous quarters, unless it is in fact planning to reduce its distributions. In the Board's view, the practice of widely varying planned capital distributions based on whether they occur in an "out-quarter" as compared to a quarter that is subject to a possible objection, may be indicative of shortcomings in a bank holding company's capital planning processes and may indicate that "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."<sup>16</sup>

Under the capital plan rule, the Federal Reserve may object to a capital plan on this basis, and the practice of widely varying planned capital distributions therefore may form the basis for objection to a bank holding company's capital plan. In reviewing this type of practice, the Federal Reserve would consider whether the bank holding company is able to provide support for wide quarter-to-quarter variations or for significantly revising its planned distributions for the same period of time from one capital plan cycle to the next capital plan cycle.

*Question 4:* What, if any, unexpected consequences might result from the proposed treatment of a failure to execute planned capital issuances? Are there circumstances other than a merger or acquisition under which it would be appropriate for a large bank holding company to maintain the gross amount of its capital distributions, even where the bank holding company has not executed the planned capital issuance? If so, describe those circumstances and explain why a bank holding company should be permitted to maintain the gross amount of capital distributions.

*e. Clarification of CCAR Process for Bank Holding Company Subsidiaries of Foreign Banking Organizations*

As discussed above, the Board issued the enhanced prudential standards rule in February 2014 implementing enhanced prudential standards for U.S. bank holding companies and foreign banking organizations with total

<sup>16</sup> 12 CFR 225.8(e)(2)(ii)(B).

consolidated assets of \$50 billion or more. A foreign banking organization with U.S. non-branch assets of \$50 billion or more is required to establish a U.S. intermediate holding company. This U.S. intermediate holding company is generally subject to the same prudential standards as a U.S. bank holding company, including capital planning and stress test requirements included in the Board's capital plan and stress test rules.

The enhanced prudential standards rule requires a foreign banking organization that has U.S. non-branch assets of \$50 billion or more as of July 1, 2015, to establish its U.S. intermediate holding company by July 1, 2016. The U.S. intermediate holding company is required to comply with risk-based capital requirements on July 1, 2016, and must submit its first capital plan on January 5, 2017 (which would be modified to April 5, 2017 under the proposed rule). The IHC must conduct its first stress test under the stress test rules beginning with the following stress test cycle (which would be modified to January 1, 2018, under the proposed rule).

The enhanced prudential standards rule provides that each subsidiary bank holding company and insured depository institution of a foreign banking organization is subject to applicable stress testing requirements until October 1, 2017 (modified to January 1, 2018 in the proposal, at which point it is expected that the U.S. intermediate holding company will be subject to the full CCAR process.<sup>17</sup> However, the enhanced prudential standards rule is silent on how the capital plan rule will apply to a subsidiary bank holding company with total consolidated assets of \$50 billion or more prior to application of the stress test rules to the U.S. intermediate holding company.

The proposed rule would clarify that a bank holding company that was subject to the capital plan rule as of September 30, 2015 and is a subsidiary of a U.S. intermediate holding company would continue to be subject to the capital plan rule until January 1, 2018.<sup>18</sup>

<sup>17</sup> If the foreign banking organization designated an existing bank holding company as its U.S. intermediate holding company, that bank holding company would continue to be subject to capital requirements under 12 CFR Part 217 until December 31, 2017, and stress test requirements under subparts F, G, or H of Regulation YY until September 30, 2017. In this event, the intermediate holding company would be required to submit a capital plan for the capital plan cycle beginning January 1, 2017, and the U.S. intermediate holding company would be subject to the CCAR process for that capital plan cycle.

<sup>18</sup> With the mutual consent of the company and the Board, another U.S. bank holding company

The Federal Reserve would continue to evaluate the subsidiary bank holding company through the CCAR process through the cycle ending on December 31, 2017. Such bank holding company subsidiary would be subject to the limitations on capital distributions and prior approval and notice requirements for capital distributions until the Board acts on the capital plan of the U.S. intermediate holding company.

As noted above, the U.S. intermediate holding company will not be subject to supervisory or company-run stress tests under the stress test rules during the stress test cycle that begins on January 1, 2017. Accordingly, for a U.S. intermediate holding company's initial capital plan cycle, the Federal Reserve's assessment of the U.S. intermediate holding company's capital plan will not be based on a supervisory stress test estimates conducted under those stress test rules.<sup>19</sup> Instead, the Federal Reserve would conduct a more limited quantitative assessment of the U.S. intermediate holding company's capital plan based on its own stress scenario and any scenarios provided by the Board and a qualitative assessment of its capital planning processes and supporting practices.

Pursuant to the capital plan rule, the U.S. intermediate holding company will be required to conduct stress tests in connection with its capital plan due April 5, 2017. Specifically, the Board expects that, in connection with the capital plans for the 2017 cycle, a U.S. intermediate holding company would be required to conduct stress tests using a baseline and a stress scenario that it had designed and the severely adverse scenario designed by the Board.<sup>20</sup>

Beginning with the following capital plan cycle, in which a capital plan would be due to the Board by April 5, 2018, the Board anticipates that it will evaluate each U.S. intermediate holding company using the full CCAR supervisory process, including post-stress capital analysis based on the supervisory stress test. During this same time period, the U.S. intermediate holding company will be subject to the stress test requirements of the stress test rules, including company-run stress tests under three scenarios provided by the Board.

owned by the foreign banking organization could comply with the requirements of the capital plan rule in lieu of the subsidiary bank holding company.

<sup>19</sup> See 12 CFR part 252, subpart E.

<sup>20</sup> The U.S. intermediate holding company would also be required to complete the relevant aspects of the FR Y-14A in connection with these stress tests. However, a U.S. intermediate holding company would not be required to publicly disclose the results of its stress tests.

For the capital plan cycle in which both the U.S. intermediate holding company and its subsidiary bank holding company are subject to the capital plan rule, the Board expects that companies could submit certain aspects of the capital plan jointly or in a single capital plan that clearly sets out and explains how the capital plan for the U.S. intermediate holding company builds on the capital plan for the bank holding company. For example, if the U.S. intermediate holding company and the bank holding company subsidiary rely on common stress testing models and practices, both companies could submit the same supporting documentation for these models, provided that the each company's submissions met all of the requirements of the capital plan rule.

*f. Clarification Under the Capital Plan Rule of Capital Actions Not Requiring Approval*

The capital plan rule provides that a large bank holding company must request prior approval or provide prior notice of a capital distribution if the "dollar amount of the capital distribution will exceed the amount described in the capital plan for which a non-objection was issued."<sup>21</sup> This provision applies to all capital distributions, including those associated with regulatory capital instruments. Accordingly, large bank holding companies that have issued accretive capital instruments with fixed dividends have been required to seek the Board's approval or provide notice to the Board in order to issue these instruments. The Board has approved these requests, and would anticipate approving similar requests in the future, provided that the proposed capital issuance would result in net capital accretion.

In order to relieve burden on the bank holding companies going forward, the proposed rule would remove prior approval and prior notice requirements for distributions involving incremental issuances of instruments that would qualify for inclusion in the numerator of regulatory capital ratios (i.e., common equity tier 1, additional tier 1, and tier 2 capital). The Board believes that removing the requirement will reduce unnecessary efforts by a bank holding company to submit requests for distributions outside of the capital plan that are associated with issuances of regulatory capital.

The proposed rule would also clarify that, in measuring whether the dollar

<sup>21</sup> See section 225.8(f) of the capital plan rule (12 CFR 225.8(f)).



amount of the capital distribution will exceed the amount described in the capital plan for which a non-objection was issued, the bank holding company should look at the distributions for each quarter.

*Question 5:* What, if any, limitations should be imposed on this proposed exception? For instance, would an aggregate dollar limit in the range of 10 to 100 basis points of a bank holding company's tier 1 capital be appropriate?

*g. Clarification of Assumptions Regarding Capital Actions Under the Stress Test Rules*

The Board requires a consistent approach for incorporating assumed capital actions into the stress tests for all bank holding companies, savings and loan holding companies and state member banks. The prescribed capital actions help ensure that the publicly disclosed results of supervisory and company-run stress tests are comparable across companies. The Board is proposing to clarify these assumptions to further enhance the comparability across companies and account for certain contractual obligations.

Specifically, the proposed rule would clarify that, for the second through ninth quarters of the planning horizon, companies should assume no new issuances of capital instruments eligible for inclusion in the numerator of a regulatory capital ratio, except for issuances related to expensed employee compensation. This change is in keeping with the Board's current practices and the existing requirement that companies assume no repurchase or redemption of capital instruments eligible for inclusion in the numerator of a regulatory capital ratio so that capital actions that are subject to future adjustment, market conditions, or regulatory approvals are not reflected in a company's projected regulatory capital.

*Question 6:* What, if any, additional exceptions to the general assumption of no issuances of capital instruments should the Board consider? Should issuances relating to an employee stock ownership plan also be treated as an exception, and if so, what would be the rationale for this exception?

*h. Other Modifications to the Capital Plan Rule and Related Requirements*

The proposal would revise the Board's Policy Statement on the Scenario Design Framework for Stress Testing and provisions governing applicability of the stress test requirements to U.S. intermediate holding companies of foreign banking

organizations to reflect the changes in the cycle shift.

The proposal would revise the scope of the capital plan rule to include any U.S. intermediate holding company and any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board and make clarifying changes to the applicability section. As discussed above in section II.a.iii of this preamble, the proposed rule would revise the applicability of the stress test rules to a nonbank financial company supervised by the Board to provide that the Board will notify a nonbank financial company prior to it being subject to the stress test rules.

The proposal would revise the hearing procedures provided for in the capital plan rule. The capital plan rule provides that a large bank holding company may request a formal hearing after the Board objects to its capital plan or disapproves of a capital distribution. A formal hearing could take several months and up to a year, and during the pendency of final action by the Board, there would be uncertainty as to whether a bank holding company could continue to make capital distributions. The proposed rule would replace the formal hearing procedures with informal procedures modeled on those used in reviewing notices of appointments of directors and senior executive officers under Regulation Y. Under the proposal, a large bank holding company would have 15 days to request an informal hearing, and the hearing would be held within 30 days of the request. The Board would provide written notice of its final decision to the bank holding company within 60 days of the conclusion of any informal hearing.

The proposed rule also would require that a bank holding company be capable of providing to the Board its 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 status. This information is needed by supervisors in order to properly assess a bank holding company's capital adequacy and capital planning processes. In this regard, the information helps facilitate cross-firm comparisons of bank holding companies' loss, revenue, and expense estimation models and their approaches to model validation.

### III. Administrative Law Matters

#### *a. Paperwork Reduction Act*

In accordance with the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3506; 5 CFR part 1320, Appendix A.1), the Board reviewed the proposed rule under the authority delegated to the Board by Office of Management and Budget (OMB). The Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid OMB control number. The OMB control for this information collection is 7100-0342. In addition, as permitted by the PRA, the Board proposes to extend for three years, with revision, the Recordkeeping and Reporting Requirements Associated with Regulation Y (Capital Plans) (Reg Y-13; OMB No. 7100-0342).

The proposed rule contains requirements subject to the PRA. The collection of information that would be revised by this proposed rule is found in section 225.8 of Regulation Y (12 CFR part 225). Proposed section 225.8(d)(3)(iv) would require that a bank holding company be capable of providing to the Board its 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 status. This information is needed by supervisors in order to properly assess a bank holding company's capital adequacy and capital planning processes. In this regard, the information helps facilitate cross-firm comparisons of bank holding companies' loss, revenue, and expense estimation models and their approaches to model validation. As mentioned in the preamble, the amendments to the qualitative standards in the proposed rule would amend the rule to include considerations that have been previously communicated to large bank holding companies individually and publicly. To reinforce the Board's focus on qualitative elements of the capital plan and enhance the bank holding companies' understanding of the capital planning assessment process, the proposed rule would enumerate certain elements of the qualitative considerations and bases for objection in the capital plan rule. The Board expects that respondents would encounter no additional burden associated with proposed section 225.8(d)(3)(vi).

Proposed section 225.8(f)(1) would remove prior approval and prior notice requirements for distributions involving incremental issuances of instruments that would qualify for inclusion in the

numerator of regulatory capital ratios (i.e., common equity tier 1, additional tier 1, and tier 2 capital). As mentioned in the preamble, the Board believes that removing the requirement would reduce unnecessary efforts by a bank holding company to submit requests for distributions outside of the capital plan that are associated with issuances of regulatory capital. The Board estimates that respondent burden associated with proposed section 225.8(f)(1) would be reduced by approximately 50 percent.

*Title of Information Collection:*

Recordkeeping and Reporting Requirements Associated with Regulation Y (Capital Plans) (Reg Y–13).

*Frequency of Response:*

Recordkeeping requirements, annually. Reporting requirements, varied—the capital plan exercise would be done at least annually, capital plan resubmissions and prior approval requirements would be event-generated.

*Affected Public:* This information collection applies to every top-tier bank holding company domiciled in the United States that has \$50 billion or more in total consolidated assets (large U.S. bank holding companies) and U.S. intermediate holding companies with total consolidated assets of \$50 billion or more.

*General Description of Information Collection:* This information collection is mandatory and the recordkeeping requirement to maintain the Capital Plan is in effect until either a bank holding company is no longer operational or until further notice by the Board. Section 616(a) of the Dodd-Frank Act amended section 5(b) of the Bank Holding Company Act (BHC Act) (12 U.S.C. 1844(b)) to specifically authorize the Board to issue regulations and orders relating to capital requirements for bank holding companies. The Board is also authorized to collect and require reports from bank holding companies pursuant to section 5(c) of the BHC Act (12 U.S.C. 1844(c)). Additionally, the Board's rulemaking authority for the information collection requirements associated with Reg Y–13 is found in sections 908 and 910 of the International Lending Supervision Act, as amended (12 U.S.C. 3907 and 3909). Additional support for Reg Y–13 is found in sections 165 and 166 of the Dodd-Frank Act (12 U.S.C. 5365 and 5366). The capital plan information submitted by the covered bank holding company would consist of confidential and proprietary modeling information and highly sensitive business plans, such as acquisition plans submitted to the Federal Reserve for approval. Therefore, it appears the information would be subject to withholding under

exemption 4 of the Freedom of Information Act (5 U.S.C. 552(b)(4)).

*Estimated Burden:*

*Number of Respondents:* 52.

*Estimated Burden per Response:*

- .8(d)(1)(i) and (ii) Recordkeeping and Reporting, 12,000 hours
- .8(d)(1)(iii) Recordkeeping, 100 hours
- .8(d)(3)(i)–(vii) 1,000 hours
- .8(d)(4) Reporting, 100 hours
- .8(e)(3)(i) Reporting, 16 hours
- .8(f)(1), (2) and (3) Reporting, 3,400 hours
- .8(f)(5) Reporting, 16 hours

*Total Estimated Annual Burden:*

670,864 hours.

Comments are invited on: (1) Whether the proposed collection of information is necessary for the proper performance of the Board's functions; including whether the information has practical utility; (2) the accuracy of the Board's estimate of the burden of the proposed information collection, including the cost of compliance; (3) ways to enhance the quality, utility, and clarity of the information to be collected; and (4) ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology. Secretary, Board of Governors of the Federal Reserve System, Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100–0342), Washington, DC 20503.

*b. Regulatory Flexibility Act Analysis*

The Board has considered the potential impact of the proposed rule on small companies in accordance with the Regulatory Flexibility Act (5 U.S.C. 603(b)). Based on its analysis and for the reasons stated below, the Board believes that the proposed rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing a final regulatory flexibility analysis.

Under regulations issued by the Small Business Administration (“SBA”), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$500 million or less (a small banking organization). The proposed rule would apply to bank holding companies, savings and loan holding companies, and state member banks with total consolidated asset of \$10 billion or more and nonbank financial companies supervised by the Board. Companies that would be subject to the proposed rule therefore substantially exceed the \$500 million total asset threshold at which a company is considered a small company under SBA regulations.

In light of the foregoing, the Board does not believe that the proposed rule would have a significant economic impact on a substantial number of small entities.

*c. Solicitation of Comments on the Use of Plain Language*

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. 106–102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the proposed rule in a simple and straightforward manner, and invites comment on the use of plain language.

For example:

- Have we organized the material to suit your needs? If not, how could the rule be more clearly stated?
- Are the requirements in the rule clearly stated? If not, how could the rule be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes would make the regulation easier to understand?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What else could we do to make the regulation easier to understand?

**List of Subjects**

*12 CFR Part 225*

Administrative practice and procedure, Banks, Banking, Capital planning, Holding companies, Reporting and recordkeeping requirements Securities, Stress testing.

*12 CFR Part 252*

Administrative practice and procedure, Banks, Banking, Capital planning, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

**Authority and Issuance**

For the reasons stated in the Supplementary Information, the Board of Governors of the Federal Reserve System proposes to amend 12 CFR chapter II as follows:

**PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)**

- 1. The authority citation for part 225 is revised to read as follows:

**Authority:** 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p–1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331–3351, 3906, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

### Subpart A—General Provisions

■ 2. Revise § 225.8 to read as follows:

#### § 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 reservation of authority—(1) Applicability.* Except as provided in paragraph (c) of this section, this section applies to:

(i) Any top-tier bank holding company domiciled in the United States 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 total consolidated assets, as reported on the 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.

(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.

(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) *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 consolidated capital.

(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.

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

(6) *Capital plan cycle* means:

(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.

(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 capital distributions; the strategies for addressing potential capital shortfalls; and the internal governance procedures around capital policy principles and guidelines.

(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.

(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.

(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.

(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.

(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.

(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 each year. For the capital plan cycle

beginning October 1, 2014, the capital plan must be submitted by 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 (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 scenarios, including any scenarios provided by the Federal Reserve and at least one BHC stress scenario;

(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 (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 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;

(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 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 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 BHC stress scenario(s) are not appropriate to 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 extend the 30-day period in paragraph (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.

(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.

(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 capital plan, the assumptions and analysis underlying the capital plan, 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 scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(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 scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(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, 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 (e)(1)(ii) of this section; and

(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 is resubmitted, unless the Board provides notice to 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 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 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 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 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:

(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

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

(ii) *Request for an informal hearing*.

(A) A request for an informal hearing shall 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 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.

(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 (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 (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 (g)(4)(i)(A) 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 paragraph (e)(2)(i) of this section;

(C) The annual aggregate dollar amount of all capital distributions (for purposes of the capital plan cycle beginning 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 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 (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 shall apply the criteria described in paragraph (g)(4)(iv) of this section.

(ii) The exception in this paragraph (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 (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) The Board or the appropriate Reserve Bank with concurrence of the Board, will act on a request under this paragraph (g)(4) within 30 calendar days after the receipt of all the information required under paragraph (g)(3) of this section.

(ii) In acting on a request under this paragraph, the Board or appropriate Reserve Bank will apply the considerations and principles in paragraph (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 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 15 calendar days after receipt of a disapproval by the Board, the bank holding company may submit a written request for a hearing.

(A) The Board 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 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, approves the capital distribution at issue, the bank holding company may not make such capital distribution.

■ 3. The removal of appendix A to part 225 at 78 FR 62017 (October 11, 2013) is withdrawn.

## PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

■ 4. The authority citation for part 252 is revised to read as follows:

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

■ 5. Subpart B is revised to read as follows:

### 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

Sec.	
252.10	[Reserved]
252.11	Authority and purpose.
252.12	Definitions.
252.13	Applicability.

- 252.14 Annual stress test.  
 252.15 Methodologies and practices.  
 252.16 Reports of stress test results.  
 252.17 Disclosure of stress test results.

#### § 252.10 [Reserved]

##### § 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 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:

(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) of the Board's Regulation Y (12 CFR 225.2(o)).

##### § 252.13 Applicability.

(a) *Scope*—(1) *Applicability.* Except as provided in paragraph (b) of this section, this subpart applies to:

(i) Any bank holding company with average total consolidated assets (as defined in § 252.12(d)) of greater than \$10 billion but less than \$50 billion;

(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 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 (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 \$10 billion for each of four consecutive quarters, as reported on the FR Y-9C or Call Report, as applicable and effective on the as-of date of the fourth consecutive FR Y-9C or Call Report, as applicable.

(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.

(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:

(i) A bank holding company, savings and loan holding company, or state member 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 and its pro forma tier 1 common ratio for the stress test cycle beginning October 1, 2014, and may not use the advanced approaches until January 1, 2016; and

(ii) Beginning January 1, 2016, a bank holding company, savings and loan holding company, or state member bank 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 stress test under § 252.14 if the Board notifies the company before the first day of the stress test cycle that the company is required to use the advanced approaches to determine its risk-based capital requirements.

#### § 252.14 Annual stress test.

(a) *General requirements—(1) General.* A savings and loan holding 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 must conduct its stress test 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; 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 conduct its stress test by July 31 of each calendar year using financial statement 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 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, 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 (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 or § 252.54(b)(2)(i) to include a trading and counterparty component in the state member 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 must be as of a date between October 1 and December 1 of 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) 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 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;

(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 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 company, bank holding company, and state member bank must report the results of the stress test to the Board in the manner and form prescribed by the Board, in accordance with paragraphs (a)(2) and (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

(ii) A state member bank that is not a covered company subsidiary and a bank holding company must report the results of its stress test to the Board by March 31, 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 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;

(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.* 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) General.* (i) A bank holding company, savings and loan holding company, 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 June 15 and ending June 30, 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 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 June 15 and ending 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.

(3) *Disclosure method.* The summary required under this section may be disclosed on the Web site 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, 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 any depository institution subsidiary that is subject to stress testing requirements pursuant to 12 U.S.C. 5365(i)(2), 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 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 satisfies the public disclosure requirements under 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 and requires the state member bank to make 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 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.

6. Subpart E is revised to read as follows:

**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.**

Sec.	
252.40	[Reserved]
252.41	Authority and purpose.
252.42	Definitions.
252.43	Applicability.
252.44	Annual analysis conducted by the Board.
252.45	Data and information required to be submitted in support of the Board's analyses.
252.46	Review of the Board's analysis; publication of summary results.
252.47	Corporate use of stress test results.

**§ 252.40 [Reserved]**

**§ 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;

(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 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:

(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) *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 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 on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A bank holding company that becomes a covered company 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.

(2) *Bank holding companies that rely on SR Letter 01-01.* A covered company 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 January 1, 2016, unless that time is extended by the Board in writing.

(3) *Nonbank financial companies supervised by the Board.* (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 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 on January 1 of the second year following that given year, unless that time is accelerated or extended by the Board in writing.

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

(1) 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 pro forma regulatory capital ratios and its pro forma tier 1 common ratio for the stress test cycle beginning October 1, 2014 and will not use the advanced approaches until January 1, 2016; and

(2) Beginning 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 Board notified the covered company before the first day of the stress test cycle that the covered company is required to use the advanced approaches to determine its risk-based capital requirements.

**§ 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, 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.* 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) *Publication of results by the Board.* (1) The Board will publicly disclose a summary of the results of the 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:

(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.

■ 7. Subpart F is revised to read as follows:

**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.**

Sec.

252.50	[Reserved]
252.51	Authority and purpose.
252.52	Definitions.
252.53	Applicability.
252.54	Annual stress test.
252.55	Mid-cycle stress test.
252.56	Methodologies and practices.
252.57	Reports of stress test results.
252.58	Disclosure of stress test results.

**§ 252.50 [Reserved]**

**§ 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;

(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:

(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) of 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) *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 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 on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A bank holding company that becomes a covered company 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.

(2) *Bank holding companies that rely on SR Letter 01-01.* A covered company 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 January 1, 2016, unless that time is extended by the Board in writing.

(3) *Nonbank financial companies supervised by the Board.* (i) The Board will apply this subpart to a nonbank financial company supervised by the Board 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 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 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:

(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 its pro forma tier 1 common ratio for the stress test cycle beginning October 1, 2014, and may not use the advanced approaches until January 1, 2016; and

(ii) Beginning January 1, 2016, a covered 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 stress test under § 252.54 if the Board notifies the company before the first day of the stress test cycle that the company is required to use the advanced approaches to determine its risk-based capital requirements.

#### **§ 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, 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 (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, 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. For the stress test cycle beginning October 1, 2014, the data used in this component 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 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) 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. 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;

(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 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 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 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 within the period that is 15 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 July 5 and ending 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 of a covered company, or in any other forum that is reasonably accessible to the public.

(b) *Summary of results.* The summary results must, 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 any depository institution subsidiary 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 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.

#### 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

■ 8. In § 252.153, revise paragraph (e) to read as follows:

#### § 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)(i), (e)(3), and (e)(4) of this section beginning on the date it is required to be established, 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, risk management, and liquidity requirements set forth in paragraphs (e)(2)(i), (e)(3), and (e)(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 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, must comply with the stress test requirements in subparts B, E, or F of this subpart, as applicable, until December 31, 2017.

■ 9. Appendix A to part 252 is amended by:

■ a. Redesignating footnotes 21 through 40 as footnotes 1 through 20.

■ b. Revising Footnotes 1, 2, 9, 19, and 20; and

■ c. Revising paragraphs 1.b, 2.a, and 7.a

The revisions read as follows:

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

\* \* \* \* \*

1. Background

<sup>1</sup> 12 U.S.C. 5365(i)(1), 12 CFR part 252, subpart E.

<sup>2</sup> 12 U.S.C. 5365(i)(2); 12 CFR part 252, subparts B and F.

\* \* \* \* \*

<sup>9</sup> 12 CFR 252.14(b), 12 CFR 252.44(b), 12 CFR 252.54(b).

\* \* \* \* \*

<sup>19</sup> 12 CFR 252.55.

<sup>20</sup> 12 CFR 252.55.

b. 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, 2014 of the scenarios it will use to conduct its annual supervisory stress tests and the scenarios that covered companies must use to conduct their annual company-run stress tests.<sup>4</sup> 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 adverse or severely adverse scenario or additional scenarios.<sup>5</sup> 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.<sup>6</sup> 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).

\* \* \* \* \*

2. Overview and Scope

a. 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

<sup>4</sup> 12 CFR 252.44(b), 12 CFR 252.54(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.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

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, and G, as well as the Board's capital plan rule (12 CFR 225.8).<sup>8</sup>

\* \* \* \* \*

7. Timeline for Scenario Publication

a. The Board will provide a description of the macroeconomic scenarios by no later than November 15, 2014 (for the stress test cycle beginning October 1, 2014) and no later than February 15 (for each 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 January.

\* \* \* \* \*

By order of the Board of Governors of the Federal Reserve System, June 12, 2014.

**Robert deV. Frierson,**  
*Secretary of the Board.*

[FR Doc. 2014-14357 Filed 6-30-14; 8:45 am]

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