

## SUPPORTING STATEMENT

### Recordkeeping and Disclosure Provisions Associated with Company-Run Annual Stress Test Reporting Template and Documentation for Covered Banks with Total Consolidated Assets of \$250 Billion or More OMB Control No. 3064-0189

#### INTRODUCTION

The Federal Deposit Insurance Corporation (FDIC) is requesting comment on a proposed rule (proposed rule or NPR) that would revise the FDIC's requirements for stress testing by FDIC-supervised institutions, consistent with changes made by Section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). Specifically, the proposed rule would amend the FDIC's existing stress testing regulations at 12 CFR Part 325 to change the minimum threshold for applicability from \$10 billion to \$250 billion, revise the frequency of required stress tests by FDIC-supervised institutions, and reduce the number of required stress testing scenarios from three to two. The NPR also proposes to make certain conforming and technical changes that were previously included in an April 2019 notice of proposed rulemaking that was superseded, in part, by the enactment of EGRRCPA. The Federal Deposit Insurance Corporation (FDIC) is revising information collection 3064-0189 to reflect the estimated effect of the above changes in the number of respondents and frequency of response. There is no change in the method or substance of the collection.

#### A. JUSTIFICATION

##### 1. Circumstances that make the collection necessary:

Prior to the enactment of EGRRCPA, section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act<sup>1</sup> ("Dodd-Frank Act") required a financial company, including an insured depository institution, with total consolidated assets of more than \$10 billion and regulated by a primary Federal regulatory agency to conduct annual stress tests and submit a report to the Board of Governors of the Federal Reserve System ("Board") and to its primary federal regulatory agency. Section 165(i)(2)(C) required each primary Federal regulator to issue consistent and comparable regulations to: (1) implement the stress testing requirements, including establishing methodologies for conducting stress tests that provided for at least three different sets of conditions, including baseline, adverse, and severely adverse; (2) establish the form and content of the required reports, and (3) require companies to publish a summary of the stress test results.

In October 2012, the FDIC published in the *Federal Register* its rule implementing the Dodd-Frank Act stress testing requirement.<sup>2</sup> The FDIC regulation at 12 CFR Part 325 implements the company-run stress test requirements of section 165(i)(2) of the Dodd-

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<sup>1</sup> 12 U.S.C. 5365(i).

Frank Act with respect to state nonmember banks and state savings associations with more than \$10 billion in assets (“covered banks”). Although 12 CFR Part 325 applies to all covered banks that exceed \$10 billion in assets, the regulation differentiates between “\$10 billion to \$50 billion covered banks” and “over \$50 billion covered banks.”

EGRRCPA, enacted on May 24, 2018,<sup>3</sup> amended certain aspects of the company-run stress-testing requirements in section 165(i)(2) of the Dodd-Frank Act. Specifically, section 401 of EGRRCPA raises the minimum asset threshold for the company-run stress testing requirement from \$10 billion to \$250 billion; replaces the requirement for banks to conduct stress tests “annually” with the requirement to conduct stress tests “periodically;” and no longer requires the “adverse” stress-testing scenario, thus reducing the number of required stress test scenarios from three to two. The EGRRCPA amendments to the section 165(i)(2) stress testing requirements are effective eighteen months after enactment.

Prior to the enactment of EGRRCPA, on April 2, 2018, the FDIC issued a notice of proposed rulemaking that also proposed certain revisions to the FDIC stress testing regulations (“April NPR”).<sup>4</sup> Certain changes proposed in the April NPR, particularly those establishing a stress testing transition process for “over \$50 billion covered banks” are no longer relevant as a result of EGRRCPA’s increase in the stress testing asset threshold to \$250 billion. However, other revisions originally proposed in the April NPR remain necessary to ensure the FDIC’s stress testing regulations remain consistent with those of the Board and the OCC.

2. Use of the information:

Consistent with past practice, the FDIC intends to use the data collected to assess the reasonableness of the stress test results of covered banks and to provide forward-looking information to the FDIC regarding a covered institution's capital adequacy. The FDIC also may use the results of the stress tests to determine whether additional analytical techniques and exercises could be appropriate to identify, measure, and monitor risks at the covered bank. The stress test results are expected to support ongoing improvement in a covered bank's stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning.

3. Consideration of the use of improved information technology:

Covered banks may use any information technology that permits review by FDIC examiners and meets the requirements of the collection.

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<sup>2</sup> 77 FR 62417 (October 15, 2012) (FDIC); 77 FR 62380 (October 12, 2012) (Federal Reserve); 77 FR 61238 (October 9, 2012) (OCC).

<sup>3</sup> Pub. L. 115-174, 132 Stat. 1296-1368 (2018).

<sup>4</sup> 83 FR 13880 (April 2, 2018). This notice of proposed rulemaking proposed amendments to 12 CFR part 325, which has an approved information collection under the PRA (OMB Control No. 3064-0189). The FDIC determined that the proposed rule did not create any new or revise any existing collection of information under section 3504(h) of title 44. Accordingly, no Paperwork Reduction Act submission was made to OMB.

4. Efforts to identify duplication:

The information required is unique. It is not duplicated elsewhere.

5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:

The information collection affects only large institutions that have more than \$250 billion in total consolidated assets and therefore does not have a significant impact on a substantial number of small entities.

6. Consequences to the Federal program if the collection were conducted less frequently:

Congress, by statute, has determined that this information is to be collected periodically. Conducting the collection less frequently would potentially present safety and soundness risks to those entities otherwise subject to testing.

7. Special circumstances necessitating collection inconsistent with 5 CFR Part 1320.5(d)(2):

There are no special circumstances. This information collection is conducted in accordance with the guidelines in 5 CFR 1320.5(d)(2).

8. Efforts to consult with persons outside the agency:

On December 28, 2018, the FDIC published a notice of proposed rulemaking in the Federal Register that includes an information collection notice with a 60-day comment period<sup>5</sup>. The comment period ends on February 19, 2019.

9. Payment or Gift to Respondents:

There is no payment to respondents.

10. Any assurance of confidentiality:

Information collected will be kept private to the extent allowed by law. No assurance of confidentiality is made.

11. Justification for questions of a sensitive nature:

The information collection does not request information of a sensitive nature.

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<sup>5</sup> 83 FR 67149 (December 28, 2018).

12. Estimate of Hour Burden Including Annualized Hourly Costs:

Summary of Annual Burden						
Information Collection Description	Type of Burden	Obligation to Respond	Estimated Number of Respondents	Estimated Frequency of Responses	Estimated Time per Response	Estimated Annual Burden
Methodologies and Practices	Recordkeeping	Mandatory	1*	Annually	640 hours	640 hours
Stress Test Reporting	Reporting	Mandatory	1*	Annually	240 hours	240 hours
Publications	Disclosure	Mandatory	1*	Annually	160 hours	160 hours
<b>Estimated Total Annual Burden</b>						<b>1,040 hours</b>

\*Note: FDIC estimates that none of the existing FDIC-supervised institutions are currently subject to the recordkeeping, reporting or disclosure requirements in the proposed rule. However, FDIC is reporting one respondent as a placeholder to preserve the burden estimate in case an institution becomes subject to these requirements in the future.

On average, FDIC staff estimates that each respondents with consolidated assets of \$250 billion or more will spend 1,040 hours at a cost of \$107.88<sup>6</sup> per hour to collect and prepare information for each ongoing annual submission, resulting in a cost of \$112,195.20 per respondent. FDIC staff expects that key drivers of costs of compliance will be the magnitude of the changes in activities and operations of each covered bank.

13. Estimate of Start-up Costs to Respondents:

None.

14. Estimate of annualized costs to the government:

None.

5. Analysis of change in burden:

The change in burden is entirely due to EGRRCPA’s increase in the stress testing asset threshold from \$10 billion to \$250 billion. This has effectively excluded all existing FDIC-supervised institutions from the recordkeeping, reporting and disclosure requirements in the proposed rule. However, FDIC is reporting one respondent as a placeholder to preserve the burden estimate in case an institution becomes subject to

<sup>6</sup>To estimate hourly wages, we used data from May 2018 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS). To estimate compensation costs associated with the rule, we used \$73.18 per hour, which is the average of the 90th percentile for seven occupations (i.e., accountants and auditors, compliance officers, financial analysts, lawyers, management occupations, software developers, and statisticians). We added 45.77 percent for private sector benefits, based on the *Employer Costs for Employee Compensation Summary*, BLS (Dec 2017). We also added the inflation rate of 1.65 percent.

these requirements in the future. The change in burden id due to the reduction in estimated respondents from five (5) to one(1).

16. Information regarding collections whose results are planned to be published for statistical use:

The results of this collection will not be published for statistical use.

17. Display of Expiration Date

The expiration date will be displayed on the form.

B. STATISTICAL METHODS

Not applicable.