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The Federal Reserve Board is proposing to reduce both the number of state-member banks that must carry out company-run stress tests and the burden imposed by stress test requirements. The proposal, which mirrors proposals previously announced by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, would:

1. raise the threshold for required company-run stress tests to $250 billion in consolidated assets, from the current $10 billion;
2. require that stress tests be carried out by most banks biannually rather than annually; and
3. reduce the number of scenarios to be used by most financial institutions to two by eliminating the hypothetical adverse scenario.

Comments on the proposal are due by Feb. 19, 2019. (The FDIC’s proposal was noted at Banking and Finance Law Daily, Dec. 18, 2018, and the OCC’s proposal was noted at Banking and Finance Law Daily, Dec. 19, 2018).

Stress test requirements. Company-run and supervisory stress tests are required by the Dodd-Frank Act. However, the specific requirements were amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act to ease the burden on all but the largest covered financial institutions. The agencies’ proposals reflect the EGRRCPA changes.

The EGRRCPA changed the Dodd-Frank Act requirement of annual stress tests to a requirement of periodic stress tests. The Fed said that, for most state-member banks, tests every two years will be sufficient. However, banks that are subsidiaries of larger, more complex firms still will be required to perform tests each year. U.S. global systemically important bank holding companies, bank holding companies that have $700 billion or more in total assets, and BHCs with cross-jurisdictional activity of $75 billion or more would qualify as larger and more complex firms.

The proposed changes would not affect the stress tests required of the largest financial institutions—those with more than $250 billion in assets. They would continue to be required to perform company-run stress tests each year and to use all three scenarios—baseline, adverse, and severely adverse. For the smaller institutions covered by the proposal, the Fed would stop using the adverse scenario in its supervisory stress tests.

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