To State Member Banks,
Bank Holding Companies,
Financial Holding Companies,
Savings and Loan Holding Companies
in the Twelfth Federal Reserve District

Agencies Issue Final Dodd-Frank Act Stress Test Guidance for Medium-Sized Firms

On March 5, 2014, the Board of Governors of Federal Reserve System and two other federal bank regulatory agencies issued final guidance describing supervisory expectations for stress tests conducted by financial companies with total consolidated assets between $10 billion and $50 billion. Subsequently, the Federal Reserve issued SR letter 14-3, “Supervisory Guidance on Dodd-Frank Act Company-Run Stress Testing for Banking Organizations with Total Consolidated Assets of More Than $10 Billion But Less Than $50 Billion.” This guidance builds upon the interagency stress testing guidance issued in May 2012 for companies with more than $10 billion in total consolidated assets that set forth general principles for a satisfactory stress testing framework.

These medium-sized companies are required to conduct annual, company-run stress tests under rules issued by the agencies in October 2012 to implement a provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act. These companies are required to perform their first stress tests under the Dodd-Frank Act by March 31, 2014. The agencies determined that providing the accompanying supervisory guidance would be helpful to these companies in carrying out their tests.

The agencies’ stress test rules are flexible to accommodate different risk profiles, sizes, business mixes, market footprints, and complexity for companies in the $10 billion to $50 billion asset range. Consistent with this flexibility, the final guidance describes general supervisory expectations for these companies’ Dodd-Frank Act stress tests, and, where appropriate, provides examples of practices that would be consistent with those expectations.

The Dodd-Frank Act stress tests may not necessarily capture a company’s full range of risks, exposures, activities, and vulnerabilities that have a potential effect on capital adequacy. Additionally, the Dodd-Frank Act stress tests assess the impact of stressful outcomes on capital adequacy, and are not intended to measure the adequacy of a company’s liquidity in the stress scenarios. Finally, companies subject to this guidance are not subject to the Federal Reserve’s capital plan rule, the Federal Reserve’s annual Comprehensive Capital Analysis and Review, supervisory stress tests for capital adequacy, or the related data collections supporting the supervisory stress test, which apply to bank holding companies with assets of at least $50 billion. SR letter 14-3 includes an attachment that provides several tables comparing the stress requirements, reporting, and expectations for companies with total consolidated assets of $50 billion or more to $10-50 billion companies.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco’s website, at http://www.frbsf.org/banking-supervision/publications/district-circular-letters/.
For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-2588

Attachments:

Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 Billion

Tables Comparing General Stress Testing Requirements, Reporting, and Expectations