

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

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

Agencies Finalize Large Bank Stress Testing Guidance

The Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation on May 14, 2012 issued final supervisory guidance regarding stress-testing practices at banking organizations with total consolidated assets of more than \$10 billion.

The guidance highlights the importance of stress testing at banking organizations as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks and better equips it to address a range of adverse outcomes. The recent financial crisis underscored the need for banking organizations to incorporate stress testing into their risk management practices, demonstrating that banking organizations unprepared for particularly adverse events and circumstances can suffer acute threats to their financial condition and viability.

This guidance builds upon previously issued supervisory guidance that discusses the uses and merits of stress testing in specific areas of risk management. The guidance outlines general principles for a satisfactory stress testing framework and describes various stress testing approaches and how stress testing should be used at various levels within an organization. The guidance also discusses the importance of stress testing in capital and liquidity planning and the importance of strong internal governance and controls as part of an effective stress-testing framework.

The guidance does not implement the stress testing requirements in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) or in the Federal Reserve Board's capital plan rule that apply to certain companies, as those requirements have been or are being implemented through separate proposals by the respective agencies. However, the agencies expect that banking organizations with total consolidated assets of more than \$10 billion would follow the principles set forth in the guidance--as well as other relevant supervisory guidance--when conducting stress testing in accordance with the Dodd-Frank Act, the capital plan rule, and other statutory or regulatory requirements.

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/letters>.

For additional information, please contact:

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Attachment: [Final Supervisory Guidance \(121 KB PDF\)](#)