

Corporate & Financial Weekly Digest

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Banking Agencies Seek Comment on New Stress Testing Guidance

On June 9, the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (the agencies) announced that they are seeking comment on proposed supervisory guidance regarding stress-testing practices at banking organizations with total consolidated assets of more than \$10 billion.

The agencies are issuing the proposed guidance "to emphasize the importance of stress testing in equipping banking organizations to assess the risks they face and address a range of potential adverse outcomes." The guidance outlines general principles for a satisfactory stress testing framework and describes 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 in an effective stress-testing framework. While the guidance is not intended to provide detailed instructions for conducting stress testing for any particular risk or business area, the proposed guidance aims to describe several types of stress testing activities and how they may be most appropriately used by banking organizations. Based on four principles set forth in the guidance, the uses of a banking organization's stress testing framework should include, but are not limited to, augmenting risk identification and measurement; estimating business line revenues and losses and informing business line strategies; identifying vulnerabilities and assessing their potential impact; assessing capital adequacy and enhancing capital planning; assessing liquidity adequacy and informing contingency funding plans; contributing to strategic planning; enabling senior management to better integrate strategy, risk management, and capital and liquidity planning decisions; and assisting with recovery planning.

While the guidance does not explicitly address the stress testing requirements outlined in the Dodd-Frank Wall Street Reform and Consumer Protection Act, the agencies anticipate that rulemakings implementing these requirements would "be consistent with the principles in the proposed guidance." The agencies also expect the guidance to be consistent with other supervisory initiatives, including those related to capital and liquidity planning. The agencies request comment on the proposed supervisory guidance by July 29.

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