



SINCE 1902

CONFERENCE OF STATE BANK SUPERVISORS

April 12, 2012

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Dear Mr. Feldman,

The Conference of State Bank Supervisors (CSBS) is pleased to comment on the Federal Deposit Insurance Corporation's (FDIC's) proposed rule on annual stress tests, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Dodd-Frank requires the federal banking regulatory agencies to establish rules requiring annual company-run capital adequacy stress tests for banks above \$10 billion (covered institutions). We support the concept of stress testing as a risk management tool, and we endorse the Dodd-Frank requirement. Additionally, we commend the FDIC for developing a workable framework to implement the law's requirement. While we generally endorse the provisions of the proposed rule, below we discuss some specific suggestions we believe can enhance the effectiveness of the rule and the comparability of stress testing requirements across the industry.

Above all, we request the agencies work with the state chartering authorities in developing and implementing stress testing expectations for specific institutions. State banking regulators oversee many institutions above \$10 billion, and will undoubtedly have insights about critical aspects of these institutions' business models on which the FDIC should focus stress testing efforts. Generally, such consultation is worked out in the field by examiners under the direction of the Nationwide State-Federal Supervisory Agreement<sup>1</sup>. To enhance supervisory transparency for the industry, we believe it is important the FDIC clarify in the rule that it will work with the state chartering authority in implementing these requirements. We also request the FDIC coordinate with the states on any examiner training initiatives it intends to develop related to stress testing.

CSBS believes it is appropriate, as the FDIC has conveyed, to expect covered institutions to consider the annual capital adequacy stress tests in concert with broader enterprise-wide stress testing work that will be expected by supervisors as illustrated in the Interagency Proposed Large Bank Stress Testing Guidance<sup>2</sup>. However, it is critical when this guidance is finalized that supervisors do not mandate

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<sup>1</sup> [http://www.csbs.org/regulatory/Cooperative-Agreements/Documents/nationwide\\_state\\_fed\\_supervisory\\_agrmnt.pdf](http://www.csbs.org/regulatory/Cooperative-Agreements/Documents/nationwide_state_fed_supervisory_agrmnt.pdf)

<sup>2</sup> <http://www.gpo.gov/fdsys/pkg/FR-2011-06-15/pdf/2011-14777.pdf>

prescriptive enterprise-wide risk management standards. CSBS believes enterprise-wide stress testing should be an industry driven solution; that is, banks should be given a chance to set expectations in this area. Stress testing should develop as a valuable risk management tool and not simply as a regulatory exercise.

In its proposal, the FDIC recognizes that certain parent company structures of covered banks may include one or more financial companies, each with total consolidated assets greater than \$10 billion. The Dodd-Frank stress testing requirements apply to the parent company and to each subsidiary financial company regulated by a primary federal banking regulator that has more than \$10 billion in total consolidated assets. To avoid unnecessary complexity or duplication of efforts, the FDIC proposes to coordinate with the other primary federal financial regulatory agencies, to the extent needed. We appreciate the FDIC's efforts to reduce complexity and burden. The desired outcome of this coordination should not be, however, that an institution escapes the requirement all together.

To address another procedural matter, we would like to highlight the potentially tight timeframe institutions will have to conduct these stress tests. The FDIC has proposed to release scenarios by mid-November. Stress tests should be completed and reported to the FDIC by January 5. This could present timing issues for institutions preparing additional year-end information, especially institutions on the smaller end of the \$10 billion scope, which do not have the same resources as truly large institutions. It is worth noting the OCC has proposed to release scenarios by mid-October. Unless there is specific information the FDIC needs to collect between the OCC's proposed timeline and mid-November, we strongly encourage the FDIC to consider publishing scenarios in concert with the OCC. Further, the FDIC has proposed that covered institutions should publish a summary of results publicly by April. We want to ensure this period builds in sufficient time for potential revisions to stress testing results in the event that the FDIC believes the institution's initial report is flawed.

We support the proposals concerning the stress testing report institutions must provide to the FDIC, including the qualitative and quantitative categories the institutions must include. It is important these expectations are clear and simple enough so that many institutions, particularly those on the smaller end of the \$10 billion scope, do not have to turn to vendors or third-party professionals to produce and interpret the report. We believe this would result in a less useful exercise. Also, we believe the public disclosure of the summary of results is an important requirement but certainly a challenging aspect of the exercise. Institutions would benefit from clarity surrounding the FDIC's expectations in this area. There will be many different analytical interpretations of these results by the public. To the extent these results will be used for comparison across institutions, regulators may run the risk of creating an environment where many institutions demonstrate irrationally conservative bias in the aspects of the tests where there is flexibility in choosing inputs. We understand the FDIC's publication of scenarios will help standardize the process to a degree. The FDIC should work with the institutions to ensure the public disclosure requirement does not result in unusable results because institutions fear an unfavorable outcome.

A critically important point is the federal banking regulators must, to the greatest extent possible, maintain comparability across stress testing requirements for covered institutions. Dodd-Frank requires

each federal banking agency to “issue consistent and comparable regulations” to implement the stress testing requirements<sup>3</sup>. While the OCC’s proposal on the topic is similar to the FDIC’s and the FRB’s, it nevertheless contains some key distinctions which could result in different reporting requirements among covered banks. We outline these distinctions in our comment letter<sup>4</sup> to the OCC on its stress testing proposal. We urge the agencies to seek comparability on these requirements.

Thank you for the opportunity to comment. We look forward to working with you on this important matter.

John W. Ryan

A handwritten signature in black ink, appearing to read "John W. Ryan". The signature is fluid and cursive, with a long horizontal stroke at the end.

President and CEO

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<sup>3</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act: 165(i)(2)(C)

<sup>4</sup> <http://www.csbs.org/regulatory/policy/Documents/CSBSCCommentLetterOCCStressTesting.pdf>