BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: April 5, 2018

To: Board of Governors

From: Staff[1]

Subject: Proposed rule regarding the stress buffer requirements

ACTIONS REQUESTED: Approval to invite public comment on a draft notice of proposed rulemaking (proposal) that would create a single, integrated capital requirement by combining the quantitative assessment of the Comprehensive Capital Analysis and Review (CCAR) program with the buffer requirements in the Board's regulatory capital rule (capital rule). The proposal would amend the Board's capital plan rule, capital rule, and stress testing rules, make amendments to the Stress Testing Policy Statement that was proposed for public comment on December 15, 2017, and make associated changes to regulatory reports. Staff also seeks authority to make minor changes to the proposal prior to publication in the Federal Register.

EXECUTIVE SUMMARY:

- The Board's stress testing and CCAR programs have significantly increased the resiliency of the banking sector and led to stronger capital planning practices at large bank holding companies.
- Stress testing assesses whether large firms have enough capital to survive adverse economic or financial sector conditions and continue to be able to lend to creditworthy businesses and consumers thus preventing credit crunches which exacerbate economic downturns; stress testing also helps make the Board's capital regime more forward-looking, risk-sensitive, and firm-specific.
- This proposal was developed in response to feedback received on the Board's stress testing practices and CCAR program. The feedback reinforced the importance of

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stress testing as a cornerstone of the Board's supervisory regime, and also identified opportunities to:

- Simplify the Board's capital regime by more closely integrating the capital rule and CCAR,
- Reduce burden for smaller, less complex firms subject to the supervisory stress test, and
- Align certain elements of the stress test with expected actions by banking firms in a stress scenario.

- The proposal would enhance the efficiency of the Federal Reserve's capital regime by maintaining the objectives of both the stress testing and capital rules while streamlining the existing rules.
- Under the proposal, the Board would use the results of the annual supervisory stress test to establish the size of a firm's stress capital buffer requirement. The stress capital buffer requirement would replace the static 2.5 percent of standardized risk-weighted assets component of a firm's capital conservation buffer requirement (see Chart 1 below). The proposal would also include a stress leverage buffer requirement.
  - The stress capital buffer requirement would equal the decrease in a firm's common equity tier 1 (CET1) capital ratio in CCAR plus four quarters of planned common stock dividends. A firm's stress capital buffer requirement would be floored at 2.5 percent of risk-weighted assets (RWAs).
  - A firm's standardized approach capital conservation buffer requirement (defined below) would include its stress capital buffer requirement, any applicable surcharge for global systemically important bank holding companies (GSIB surcharge), and any applicable countercyclical capital buffer amount. As such, a GSIB's standardized approach capital conservation buffer requirement would be a function of both its vulnerability to stress (as measured by the stress capital buffer requirement) and the costs the firm's distress would impose on the financial system (as measured by the GSIB surcharge).
  - As under the current capital rule, a firm would be subject to increasingly strict limitations on capital distributions and discretionary bonus payments as the firm's standardized approach capital ratios decline below the firm's standardized approach capital conservation buffer requirement.
  - The proposal would simplify the regulatory capital regime that applies to the largest bank holding companies, reducing the total number of requirements from 24 to 14. (See Chart in the Appendix 1).

- The proposal includes three additional adjustments to CCAR in order to better align it with a firm's expected actions in stress. The proposal would:
    - Remove the current assumption in CCAR that a firm will carry out all nine quarters of its planned capital actions (e.g., dividends, repurchases, and issuances) in the stress test and instead require firms to prefund only four quarters of planned common stock dividends,
    - Modify the current assumption in CCAR that effectively requires that a firm's balance sheet grows under stress[2] to an assumption that the firm's balance sheet size remains constant under stress, and
    - Remove the 30 percent dividend payout ratio that had been used as a threshold for heightened supervisory scrutiny.
- The proposal would eliminate the CCAR quantitative objection. However, the proposal would not change CCAR's qualitative review process or provisions of the capital plan rule that allow the Board to object to a capital plan on the basis of qualitative deficiencies for large, complex firms. The Board removed these provisions for large and noncomplex firms in February 2017.[3]
- A firm's stress buffer requirements will vary in size throughout the economic cycle depending on the firm's risk exposures and the severity of the stress scenario. Staff estimates that the proposal would decrease the amount of capital required for non-GSIBs subject to CCAR relative to requirements today and generally maintain or, in a few cases, increase the amount of capital required for GSIBs.
- Had the proposal been in effect during recent CCAR exercises, analysis of those CCAR results and the current level of capital at participating firms indicates that no such firm would have needed to raise additional capital in order to avoid the proposal's limitations on capital distributions.

BACKGROUND: The resiliency of large financial institutions is critical to the stability of the financial sector. As shown in the 2007-2008 financial crisis, problems at large financial institutions can lead to significant market disruption, spread rapidly throughout the financial system, and cause a credit crunch, worsening economic downturns. To be

[2] The Board currently projects each firm's balance sheet using a set of models that hold the loan supply constant over the stress test horizon while allowing credit demand to respond to conditions in the stress scenario, generally resulting in projected growth in firms' total assets in the stress test.

[3] See 81 FR 9308 (February 3, 2017).

resilient, a financial institution must maintain sufficient levels of capital to support the risks associated with its exposures and activities. In the years leading up to the financial crisis, neither the regulatory capital regime nor financial institutions' own models sufficiently captured the actual risk exposures of financial institutions, resulting in a level of capital that was inadequate to cover losses as conditions deteriorated, putting economic activity at risk.

The risks to the ability of the financial system to support economic growth were exacerbated by actions taken by bank holding companies during the crisis. Rather than conserve loss-absorbing resources, many bank holding companies continued to distribute capital to shareholders in an attempt to reassure the market of their health and resiliency. Further, the lack of transparency into bank holding companies' actual risk profiles during the crisis increased uncertainty, left counterparties unable to distinguish between healthy and unhealthy banks, and prompted a large and sudden reaction from the markets as the full scale of risks was revealed. The systematic loss of confidence in the banking sector that ensued led to sharply tighter credit conditions for businesses and households and caused extreme strains in crucial markets; the economic consequences prompted public sector intervention by the Congress, U.S. Treasury, Board, and Federal Deposit Insurance Corporation to avoid further deterioration and restore economic activity.

At the height of the crisis, the Board turned to stress testing, under the Supervisory Capital Assessment Program (SCAP), to determine potential losses at the largest firms if the prevailing stress severely worsened and to restore confidence in the financial sector. Building on the success of the SCAP, the Board introduced the current stress testing regime and CCAR to assess whether the largest banking organizations have sufficient capital to continue to lend and absorb potential losses under severely adverse conditions, and to ensure that they have sound, forward-looking capital planning practices.

The Board adopted the capital plan rule in 2011, which requires each bank holding company with $50 billion or more in total consolidated assets to submit an annual capital plan to the Board and undergo an annual assessment of its capital adequacy and capital

planning processes.[4] The Board may limit a firm's capital distributions under the rule if the Board finds deficiencies in the firm's pro forma post-stress level of capital or its capital planning process.[5] The Board also adopted rules implementing the supervisory and company-run stress test requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Board publishes the results of its stress tests and assessment of firms' capital planning practices, which enhances market discipline.

In addition, the Board revised its capital rule to address weaknesses observed during the 2007-2008 financial crisis. The revisions to the Board's capital rule strengthened the quality and quantity of capital held by firms by implementing, among other changes, a new common equity tier 1 (CET1) minimum capital requirement, a higher minimum tier 1 capital requirement, capital buffer requirements above the minimum requirements, and for GSIBs, a supplemental risk-based capital buffer requirement.

Strengthening the regulatory capital regime, including the introduction of capital planning and stress testing requirements, has been an important supervisory response to the financial crisis. Stress testing makes the capital regime more forward-looking, risk-sensitive, and firm-specific. As a result of this program and the enhancements made to the Board's regulatory capital regime, large U.S. bank holding companies are much more resilient to stress than in the past. Common equity capital levels among the nation's largest bank holding companies have more than doubled, rising by over $720 billion since 2009, making U.S. financial institutions among the strongest in the world.

The Board periodically reevaluates its programs to ensure that they remain effective and that unintended consequences are minimized. Accordingly, the Board has

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[4] See 12 CFR 225.8.

[5] 12 CFR 225.8(f). As discussed below, a large and noncomplex firm is no longer subject to the qualitative assessment in CCAR.

reviewed the CCAR program to assess its effectiveness and to identify any areas that should be refined. The review included an internal assessment as well as a series of feedback meetings with outside parties. The participants in such meetings included senior management from firms currently subject to the CCAR, debt and equity market analysts, representatives from public interest groups, and academics in the fields of economics and finance.

The feedback received during the review suggested that the stress testing regime and the CCAR program have been effective in strengthening large firms' capital positions and capital planning practices and should remain an integral part of the Board's capital regime. The feedback identified several areas where the capital plan rule and CCAR could be further refined or improved, including reducing burden for smaller and less complex firms; addressing the role of the GSIB surcharge in the supervisory stress test;[6] addressing inconsistencies between the assumptions in the supervisory stress test and the capital distribution limitations in the capital rule; and simplifying certain supervisory stress test assumptions.

The Board has already taken action to reduce burden associated with CCAR for smaller and less complex firms.[7] This proposal would further reduce the burden of CCAR on those firms and address other areas the Board has identified for refinement. In general, the proposal is designed to simplify the Board's approach to capital adequacy and capital planning requirements through the integration of two existing regimes and to ensure that the regime is further tailored to the size, complexity and systemic footprint of each bank holding company subject to CCAR.

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[6] See 12 CFR part 217, subpart H (GSIB surcharge rule).

[7] See 81 FR 9308 (February 3, 2017). Additionally, in response to feedback regarding the transparency of the methodology for conducting the supervisory stress test, in December 2017 the Board released a package of proposals that would increase its transparency. See 82 FR 59529 (December 15, 2017).

DISCUSSION:

A. Integration of certain elements of the Board's capital regime

The proposal would simplify the Board's overall capital regime by integrating the capital rule and CCAR. Through this integration, the proposal would eliminate the need for firms to manage to these two different assessments of capital adequacy and would address inconsistencies in assumptions regarding capital distributions in the two regimes.

Currently, bank holding companies with assets of $50 billion or more are subject to restrictions on capital distributions under both the capital rule and CCAR.[8] Both frameworks provide incentives for firms to maintain an adequate amount of capital to stay above minimum regulatory requirements during stress, but use different mechanisms. Under the capital rule, a firm is subject to restrictions on its capital distributions and certain discretionary bonus payments if the firm does not maintain a buffer of CET1 capital of at least 2.5 percent above minimum risk-based capital requirements (expanded by any applicable GSIB surcharge and any applicable countercyclical capital buffer amount). Under CCAR, the Board may restrict capital distributions if a firm has not demonstrated an ability to maintain capital levels above minimum regulatory capital requirements under stressful conditions (CCAR quantitative objection) assuming that the firm makes all planned distributions included in its capital plan.

This proposal would integrate these approaches by using the results of the annual supervisory stress test to establish the size of a risk-based stress buffer requirement (stress capital buffer requirement) and a leverage-based stress buffer requirement (stress leverage buffer requirement) for each firm (together, the stress buffer requirements). The

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[8] While CCAR (which implements the capital plan rule) applies to bank holding companies with total consolidated assets of $50 billion or more, the capital rule applies restrictions on capital distributions and certain discretionary bonus payments to all bank holding companies and savings and loan holding companies with total consolidated assets of $1 billion or more and all state member banks.

proposal would remove the quantitative objection in CCAR, as described further below, and instead rely on the capital rule's automatic restrictions on capital distributions that are triggered if a firm breaches its buffer requirements.

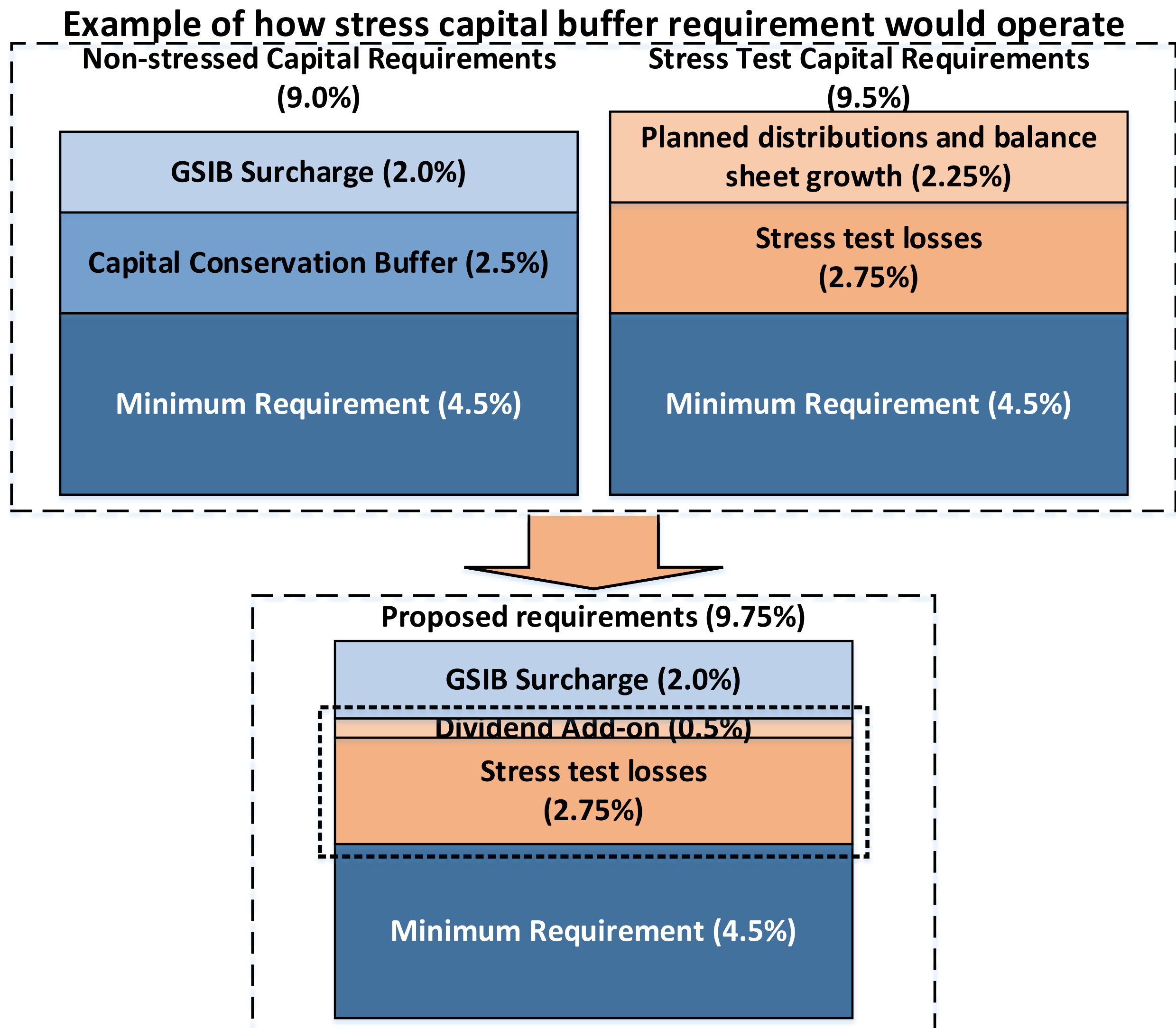
The proposal would be effective on December 31, 2018, and a firm's first stress buffer requirements would generally be effective on October 1, 2019.[9]

Risk-based capital buffer requirements

The stress capital buffer requirement would be calculated as the difference between the firm's starting and lowest projected CET1 ratio under the severely adverse scenario of the supervisory stress test, calculated using the standardized approach, plus the firm's planned common stock dividends for each of the fourth through seventh quarters of the planning horizon (expressed as a percentage of risk-weighted assets). A firm's stress capital buffer would be no less than 2.5 percent of risk-weighted assets. The stress capital buffer requirement would replace the static 2.5 percent buffer requirement under the standardized approach (see Chart 1 below).

[9] To provide a transition between the 2018 CCAR cycle and the first stress buffer requirements, for the period from July 1 through September 30, 2019, a firm would be authorized to make capital distributions that do not exceed the four-quarter average of capital distributions approved by the Board in the previous capital plan cycle, unless otherwise determined by the Board.

Chart 1



A firm's standardized approach capital conservation buffer requirement would include its stress capital buffer requirement, in addition to any applicable GSIB surcharge and any applicable countercyclical capital buffer amount. Thus, a large bank holding company would be subject to an integrated framework that reflects both the erosion of the firm's capital in a severely adverse scenario (the stress capital buffer requirement) and the risk presented by the firm's potential distress to the broader financial system (GSIB surcharge).

Currently, a firm subject to the advanced approaches calculates a given risk-based capital ratio under both the standardized and advanced approaches, and uses the lower of the two ratios as its operative ratio. Under the proposal, a firm would continue to calculate the given risk-based capital ratio under both the standardized and advanced approaches, but would be subject to the stress capital buffer requirement only with respect to its standardized approach capital ratios. A firm's advanced approaches capital conservation buffer requirement would be equal to 2.5 percent of risk weighted assets (rather than the stress capital buffer requirement), plus any applicable GSIB surcharge, plus any applicable countercyclical capital buffer amount. The proposal to include the stress capital buffer requirement only within the standardized approach is consistent with the Board's historical practice, as the Board has not used or required the use of the capital rule's advanced approaches in the supervisory stress test due to the significant resources required to implement the advanced approaches on a pro forma basis and the complexity and opaqueness associated with introducing the advanced approaches in supervisory stress test projections. In addition, both the supervisory stress test and the advanced approaches are calibrated to reflect tail-risks; thus it could be duplicative to require a firm to meet the requirements of the advanced approaches on a post-stress basis.

Stress leverage buffer requirement

The proposal would also include a stress leverage buffer requirement, which would be calculated as the difference between the firm's starting and minimum projected tier 1 leverage ratio under the severely adverse scenario of the supervisory stress test, plus the firm's planned common stock dividends for each of the fourth through seventh quarters of the planning horizon (expressed as a percentage of the leverage ratio denominator).[10] This stress leverage buffer requirement would help to maintain the current complementary relationship between the risk-based and leverage capital

[10] The proposal would not, however, extend the stress buffer concept to the supplementary leverage ratio. A single stress leverage buffer, applicable to all firms, would provide a sufficient backstop and avoid adding additional complexity.

requirements in normal and stressful conditions. The stress leverage buffer requirement would replace the requirement in CCAR that a firm demonstrate its ability to maintain capital levels above minimum leverage requirements on a post-stress basis. The stress leverage buffer requirement would not have a floor, as there is no applicable leverage buffer requirement today, and would apply to all firms subject to the supervisory stress test.

Limitations on capital distributions and discretionary bonus payments

A firm would be required to maintain capital ratios above its minimum plus its buffer requirements in order to avoid restrictions on its capital distributions and discretionary bonus payments. A firm would be bound by the most stringent distribution limitations, if any, as determined by the firm's standardized approach capital conservation buffer requirement, the firm's stress leverage buffer requirement and, if applicable, the firm's advanced approaches capital conservation buffer requirement and the enhanced supplementary leverage ratio standard.

Assumptions related to planned capital distributions

The proposal would modify certain capital distribution assumptions in the supervisory stress test to determine a firm's stress buffer requirements. Currently, in the CCAR post-stress capital assessment, the Board assumes that a firm will make all of its planned capital actions, including dividends and repurchases, and issuances of regulatory capital instruments. The proposal would narrow the set of planned capital actions assumed to occur in the supervisory stress test.

The current CCAR capital distribution assumptions were introduced to assess whether a firm could meet minimum capital requirements during severe stress conditions even if the firm did not reduce its planned capital distributions. However, the stress buffer requirements would reduce the need for the assumption that a firm makes all common stock distributions in a stress scenario because the restriction on a firm's capital distributions on an ongoing basis would be a function of the firm's performance under

stress. Accordingly, the Board would no longer assume that a firm makes any repurchases or redemptions of any capital instrument.

In order to preserve the current incentives for a firm to engage in disciplined, forward-looking dividend planning, the proposal includes four quarters of planned common stock dividends in the determination of a firm's stress buffer requirements. The proposal would reflect dividends—but not repurchases—based on experience in the recent financial crisis, when large bank holding companies began to reduce share repurchases early in the crisis but continued to pay dividends at nearly the pre-crisis rate through 2008.[11] In addition, the academic literature generally indicates that repurchases are more flexible than dividends.[12]

In addition, the Board would eliminate the 30 percent dividend payout ratio as a criterion for heightened supervisory scrutiny of a firm's capital plan.

Adjusting assumptions about balance sheet behavior

In conjunction with the proposal, the Board would modify the approach to balance sheet projections in its supervisory stress test. The Board currently projects each firm's balance sheet using a set of models that hold the loan supply constant over the stress test horizon while allowing credit demand to respond to conditions in the stress scenario, generally resulting in projected growth in firms' total assets in the stress test. This assumption was introduced to evaluate whether firms have sufficient capital to withstand stress without "shrinking to health" by restricting the availability of credit. Firms

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[11] Beverly Hirtle, "Bank Holding Company Dividends and Repurchases during the Financial Crisis," FRBNY Staff Report, (April 2016), www.newyorkfed.org/medialibrary/media/research/staff_reports/sr666.pdf and Viral V. Acharya, Irvind Gujral, Nirupama Kulkarni, Hyun Song Shin, "Dividends and Bank Capital in the Financial Crisis of 2007-2009," (March 2011) NBER Working Paper No. 16896, http://www.nber.org/papers/w16896.

[12] See Franklin Allen and Roni Michaely (2003), "Payout Policy" in Handbook of the Economics of Finance, and Martin Schmalz, Joan Farre-Mensa, and Roni Michaely (2014) "Payout Policy" in Robert Jarrow (Ed.), Annual Review of Financial Economics.

subsequently provided examples of when the current assumption is unrealistic (e.g., legacy portfolios that are being run off).

Under the proposal, the Board would modify its proposed Stress Testing Policy Statement to include an assumption that the firm takes actions to maintain a constant level of assets, including loans, trading assets, and securities over the planning horizon.[13] Holding balance sheets constant would strike a middle ground, simplifying the assumptions while preventing firms from planning to reduce credit supply in stress. As a related matter, the proposed Stress Testing Policy Statement would be modified to include an assumption that a firm's leverage ratio denominator and risk-weighted assets generally remain unchanged over the planning horizon.[14]

B. Changes to CCAR

The proposal would modify certain elements of CCAR to reflect the introduction of the stress buffer requirements. Specifically, the Board would no longer object to a firm's capital plan based on a quantitative assessment of the firm's capital adequacy because the firm's distributions would be subject to ongoing limitations under the capital rule based on its stress buffer requirements.

Under the proposal, a firm subject to the capital plan rule would continue to submit a capital plan to the Board on an annual basis, including a description of the firm's planned capital actions over the planning horizon. A firm would not be permitted to exceed the amount of capital distributions in the firm's capital plan without prior notification to or approval from the Board. To help ensure a firm engages in prudent capital planning, the firm would be required to limit its planned capital distributions for

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[13] Similar to the Board's current methodology, balance sheet projections would reflect the impact of a planned merger or acquisition, or completed or contractually agreed-on divestiture.

[14] Projected risk-weighted assets and leverage ratio denominator would account for the effect of changes associated with the calculation of regulatory capital, changes to the Board's regulations, and the impact of a planned merger or acquisition, or a completed or contractually agreed-on divestiture.

the fourth through seventh quarters of the planning horizon to those that would be consistent with any effective capital distribution limitations that would apply under the firm's own BHC baseline scenario projections. In the event the firm included planned capital distributions in its capital plan that would exceed those permitted by any buffer requirements in the firm's own baseline scenario projections, the firm would be required to reduce its planned capital distributions within 2 business days after receipt of its stress buffer requirements.

For the largest and most complex firms, the qualitative review of a firm's capital plan and planned capital actions would continue to take place through the CCAR program, and firms would continue to be subject to a potential qualitative objection to their plan (qualitative objection). Additionally, as under the current rule, the Board may require a firm that materially underperforms its projected capital ratios to resubmit its capital plan if such underperformance results from material changes in the firm's risk exposures or operating conditions.

C. Changes to capital plan rule procedures

The proposal would revise the procedures for a firm to request reconsideration of a qualitative objection to its capital plan and would apply the same procedures to allow a firm to request reconsideration of its stress buffer requirements. A firm that wishes to request reconsideration of its stress buffer requirements or of a qualitative objection to its capital plan would be required to submit a request to the Board. This process would provide the Board with an opportunity to consider justifications and additional information that the firm believes support its request in light of the results of the Board's supervisory stress test, additional information received during the CCAR process, and any other relevant information. While a firm's request for reconsideration is pending, the requirements under reconsideration would not be final, and therefore would not be effective.

In order to provide time for a firm to request reconsideration and the Board to respond, a firm's stress buffer requirements would be effective on October 1 of each year, unlike in the current CCAR process, where the results of CCAR are effective immediately (approximately July 1).

D. <u>Impact of the Proposed Changes</u>

To assess the impact of the proposal, staff reviewed the levels of capital currently required of each firm under CCAR and under the capital rule and compared the higher of those amounts to the estimated level of capital that would be required of each firm under the proposal.[15] Under the Board's current rules, to avoid limitations on distributions, a firm must both (1) maintain risk-based capital ratios above the capital rule's minimum requirements plus its capital conservation buffer requirement, and (2) demonstrate an ability to maintain capital ratios above minimum regulatory capital requirements in the supervisory stress test.

For firms with over $50 billion in assets that are not GSIBs, the proposal generally would result in a reduction to a firm's required level of capital relative to what is required today. This reduction occurs because the supervisory stress test, as modified, generally would require less capital than the current post-stress capital assessment in CCAR, which is the requirement that currently binds most of these firms.

For a few GSIBs, however, the proposal would result in an increase in the firm's required level of capital relative to what is required today. The increase would occur in the risk-based requirements because the standardized approach capital conservation buffer requirement —which, for a GSIB, would include both the stress capital buffer requirement and the GSIB surcharge—would be greater than the amount of capital required under the current requirements, both post-stress and ongoing.

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[15] This analysis assumes a countercyclical capital buffer amount of zero, consistent with the current level as affirmed by the Board on December 1, 2017: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20171201a.htm.

The net impact of the proposal would be to reduce the required level of CET1 capital for most non-GSIBs and to generally maintain or in some cases increase CET1 capital requirements for GSIBs. Thus, the proposal would further tailor the stringency of capital requirements to the size, complexity, and systemic footprint of each firm.

Because the proposed stress leverage buffer requirement would be affected by the modified assumptions in the supervisory stress test but would not include the GSIB surcharge or any applicable countercyclical capital buffer amount, all other things being equal, the proposal generally would lower the amount of tier 1 capital that a firm would need to maintain with respect to the assessment of the tier 1 leverage ratio in stress.

The impact of the proposal would vary across firms based on their individual risk profiles and planned distributions and would vary across time based on the severely adverse stress scenario used in the supervisory stress test. Based on data from CCAR 2015, 2016, and 2017, the impact of the proposal would range from an aggregate reduction in CET1 capital requirements of about $30 billion (based on 2017 data) to an aggregate increase in CET1 capital requirements of about $40 billion (based on 2015 data). For GSIBs, this represents a corresponding increase in CET1 capital requirements of approximately $10 billion to $50 billion in aggregate, while non-GSIBs would have a decrease of approximately $45 billion to $10 billion, respectively. Had the proposal been in effect during recent CCAR exercises, analysis of those CCAR results and the current level of capital at participating firms indicates that no such firm would have needed to raise additional capital in order to avoid the proposal's limitations on capital distributions.

E. Proposed Changes to Regulatory Reports and Stress Test Rules

The proposal would modify the Capital Assessments and Stress Testing Report (FR Y-14A; OMB No. 7100-0341) and the Consolidated Financial Statements for Holding Companies Report (FR Y-9C; OMB No. 7100-0128) to collect information regarding the stress buffer requirements applicable to a firm. Specifically, the proposal

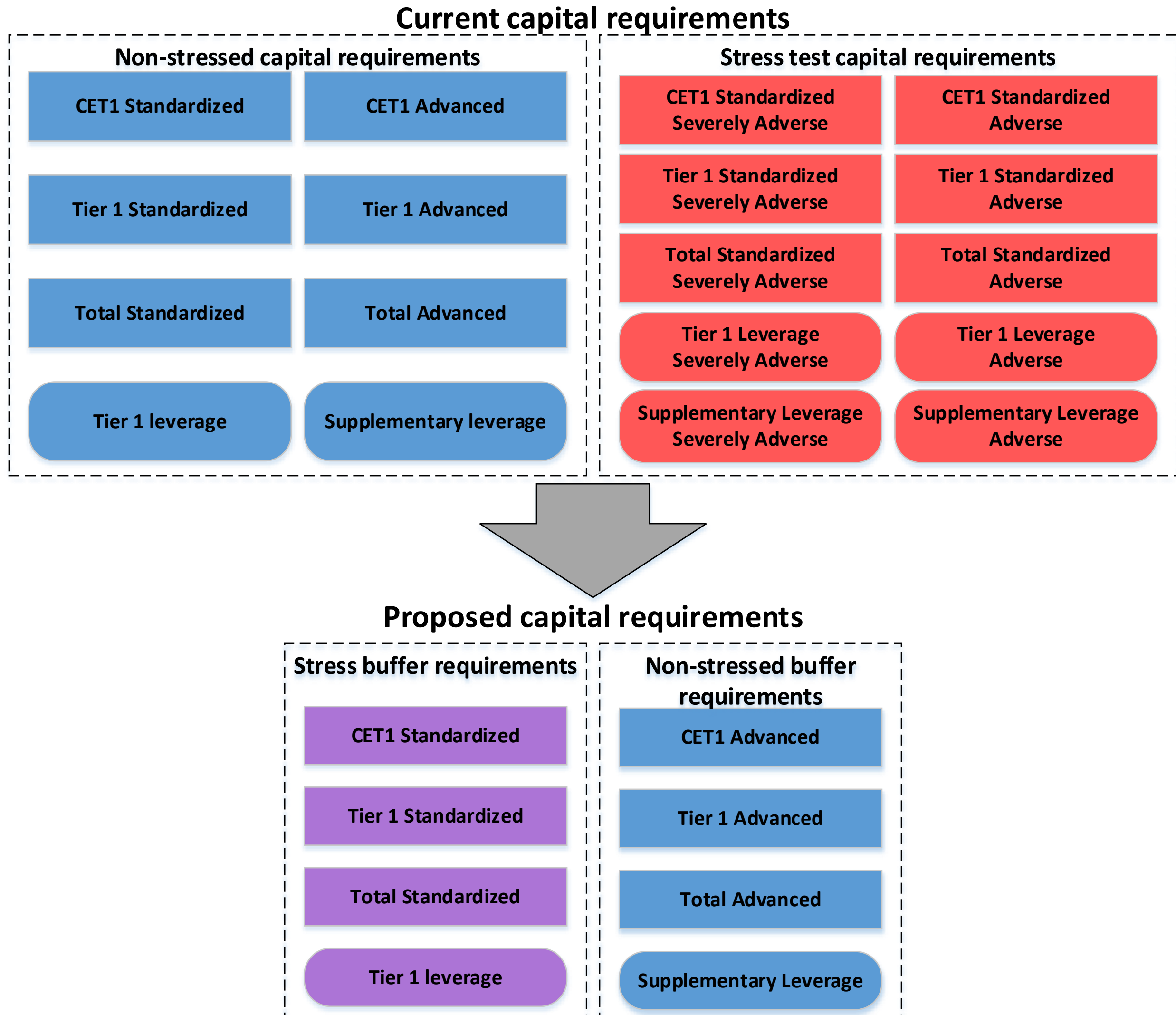
would add new line items to the semi-annual FR Y-14A schedule to collect the information necessary to implement the proposed evaluation of planned capital actions under the bank holding company baseline scenario. The proposal also would add corresponding line items to the FR Y-9C Schedule HC-R, Part 1 to provide the information necessary to monitor a bank holding company's performance quarterly.

To increase the transparency regarding the application of an additional trading and counterparty scenario component, the proposal would expressly include the definition of "significant trading activity" into the Board's company-run stress test requirements, rather than defining this term by reference to the FR Y-14. In addition, the proposal would modify the capital action assumptions in the stress test rules to align with the proposed capital actions used to calculate a firm's stress buffer requirements.

CONCLUSION: For the reasons discussed above, staff recommends that the Board invite public comment for a period of 60 days on the attached draft proposal and draft revised Stress Testing Policy Statement. Staff also requests authority to make technical and minor changes to the draft proposal and draft revised Stress Testing Policy Statement prior to publication in the Federal Register.

Attachments

Appendix 1: Illustration of simplification in the proposal



Note: This figure excludes six resolution requirements relating to total loss-absorbing capacity and long-term debt that are not directly affected by the proposal.