

July 22, 2016

The Honorable Thomas Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

The Honorable Janet L. Yellen
Chair
Federal Reserve Board
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20219

Re: Midsize Bank Stress Testing Requirements

Dear Comptroller Curry, Chairman Gruenberg, and Chair Yellen

The American Bankers Association¹ notes with appreciation the recent statements by Federal Reserve Chair Yellen and Governor Tarullo regarding stress test reforms. The value of stress tests as forward-looking supervisory tools has been demonstrated, and the art of designing and applying stress tests is continually improving. How to identify further improvements is a timely topic.

We particularly wish to comment on indications that reforms would include reducing the burden of unneeded elements in the application of stress tests to smaller banks. We understand that reform work in this regard may be focused on relief from qualitative elements of the stress tests.

We would echo the views that the value of stress tests is enhanced to the degree that they are tailored to an institution's business model and risk profile. We believe that this is a principle applicable to stress tests for any banks. In this letter we wish to draw attention to how to improve the application of stress tests to midsize banks, for the purpose of these comments,

¹ *The American Bankers Association is the voice of the nation's \$16 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard \$12 trillion in deposits, and extend more than \$8 trillion in loans.*

identified as banks not subject to the Comprehensive Capital Assessment and Review (CCAR) process.

In addition to topics of reform that may already be under review by the Federal Reserve, we would recommend consideration of the following:

- Limiting public disclosures to the aggregate results of midsize banks as a class;
- Providing a floating submission date; and,
- Allowing midsize banks to reuse scenarios over a multi-year period.

Disclosure of stress testing results should be limited and aggregated.

The stress test regime developed by the agencies, pursuant to provisions of the Dodd-Frank Act, requires midsize banks to evaluate, report to regulators, and publish a summary of the results of a firm's company-run stress test. This company-run process is an instrument of bank supervision intended to verify that banks hold sufficient capital to continue operating under multiple stressed scenarios. In that context they add an important forward-looking tool to agencies' supervision of banks' risk management programs.

We appreciate the degree to which regulators have taken a tailored and flexible approach to midsize bank stress testing models. This tailoring means, however, that midsize bank stress testing results—valuable for more effective evaluation of each bank's individual program—will not be a helpful tool for public comparison of institutions. The results will appropriately be based on significant and necessary variations in modeling for each bank, taking into account different local economic conditions, and business risks encountered by the bank and its customers, dissimilarities in business models (agricultural risks will vary for a Midwest bank and a northeast urban-based bank, for example), and other relevant factors, important for the particular institution but not necessarily so for others. The different stress assumptions applied by one bank could make it look, inaccurately, to be in better or worse condition than its peers. Recognizing the non-comparability of midsize bank results, the agencies issued an important statement cautioning investors about overly relying on midsize bank stress test result disclosures.

ABA strongly believes that the results of company-run stress tests for midsize banks are a valuable supervisory tool and should be treated as such. Because of their prudential purpose and the valuable supervisory information yielded to the bank regulators, it is our view that the public release of uniquely identifiable stress test information for the midsize banks is inappropriate and undermines the rigor of these important but admittedly hypothetical tests of midsize banks under posited future conditions. We recognize that the Dodd-Frank Act does require disclosure of "a summary of results." That requirement, within the context of the statute, clearly is intended for systemic risk purposes. Not a single one of these midsize banks poses any systemic risk. We can, however, conceive of systemic management value for the public by agency publications of aggregate summary information for midsize banks as a class, and we believe that doing so would be consistent with the purpose and language of the statutory obligation. Disclosure of an aggregate summary, compiled by the agencies from the results provided by the individual results from the midsize banks, would emphasize and enhance the use of midsize bank stress testing as a

supervisory tool, as recognized in the joint agency statement released in connection with the stress tests completed in 2015.

The Banking Agencies should provide a floating submission date for midsize banks.

We urge the Banking Agencies to explore the feasibility of a floating submission date under which a midsize bank must submit its results, using the previous year's stress scenarios, within a year after the scenarios are released. A floating submission date would allow banks to conduct their stress tests during their capital planning process, which, depending on the institution, does not occur at the same time of year for every bank. A flexible submission date would allow banks to conduct the stress tests when they have the resources most efficiently available to do so. That in turn would, we believe, maximize the quality of the supervisory information yielded.

Reuse of scenarios over multi-year periods.

We urge the Banking Agencies to explore whether the stress tests can remain a valuable exercise if midsize banks were allowed to reuse the same scenarios (with minor variations if needed) over a multi-year period. Allowing midsize banks to use the same scenarios over a multi-year period would significantly reduce the burden related to the stress testing requirements. Moreover, reuse of scenarios would enhance the ability of supervisors to make more accurate comparisons of results from year-to-year.

Thank you for considering the recommendations raised in this letter. ABA and our members stand ready to consult further with the Banking Agencies about how to maximize the value of the midsize bank stress test program for regulatory supervision and bank management.

Sincerely,

A handwritten signature in black ink that reads "Hugh C. Carney". The signature is written in a cursive style with a prominent "H" and "C".

Hugh C. Carney
Vice President of Capital Policy