This interim guidance is effective November 15, 2012. Comments must be submitted on or before January 14, 2013.

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SUPPLEMENTARY INFORMATION:

I. Background

Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires certain financial companies, including national banks and Federal savings associations with total consolidated assets of more than $10 billion (covered institutions), to conduct annual stress tests. The OCC published in the Federal Register on October 9, 2012, the final Annual Stress Test Rule1 implementing the requirements and setting out definitions and rules for scope of application, scenarios, reporting, and disclosure. Under the Stress Test Rule, covered institutions are required to conduct annual stress tests based on the annual stress test cycle set out in Table 1.

<table>
<thead>
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<th>Key step</th>
<th>Over $50 billion</th>
<th>$10 to $50 billion</th>
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<tbody>
<tr>
<td>1. OCC distributes scenarios for annual stress tests.</td>
<td>By November 15</td>
<td>By November 15</td>
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177 FR 61238 (October 9, 2012).

Federal Register
Vol. 77, No. 221
Thursday, November 15, 2012
A key component of the annual stress test is the stress test scenarios. Scenarios are sets of conditions that affect the U.S. economy or the financial condition of covered institutions. Each scenario includes the values of the variables specified for each quarter over the stress test horizon. The variables specified for each scenario generally address economic activity, asset prices, and other measures of financial market conditions for the United States and key foreign countries. The OCC annually will determine scenarios that are appropriate for use for each annual stress test. The timeline in Table 1 provides that the OCC will distribute stress test scenarios to covered institutions by November 15th of each year. This document articulates the principles that the OCC will apply to develop and distribute those scenarios for covered institutions.

II. Immediate Effective Date and Request for Comment

This interim guidance is effective November 15, 2012 and applicable, to the extent practicable, to the annual stress test cycle beginning this year. As explained in the preamble, the Stress Test Rule was effective immediately upon publication because the stress testing framework represents a critical tool for national bank supervision and is essential for the health of covered institutions and the overall financial stability of the economy. For this reason, OCC believed that it was necessary for certain national banks and Federal savings associations with consolidated assets of $50 billion or more to conduct stress tests under the Stress Test Rule this year.

The stress tests conducted under the Stress Test Rule framework will provide important forward-looking information to supervisors to assist in the overall assessment of a covered institution’s capital adequacy and will help determine whether additional analytical techniques and exercises are appropriate to identify, measure and monitor risk to the financial soundness of the covered institution. Moreover, the OCC believes that the stress tests will benefit the covered institutions by supporting their own forward-looking assessments of their risks and better equip them to address a range of adverse outcomes. Similarly, the OCC believes that it is necessary to make this interim guidance effective immediately. The OCC recognizes that because of timing issues many of the procedural aspects of this interim guidance will not be relevant for the development of the scenarios for this year, however, the OCC believes that it is important to give covered institutions a sense of the general processes and factors used for scenario development that the OCC expects to use going forward, as well as an opportunity to comment.

The agency solicits comment on all aspects of the interim guidance. Specifically, what challenges, if any, exist in applying this guidance generally or at particular banking organizations and why? Are there any terms described by the interim guidance that require further clarification and how should they be defined?

III. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3506; 5 CFR part 1320, Appendix A1, the OCC reviewed the interim guidance. The OCC may not conduct or sponsor, for an organization to respond to, an information collection unless the information collection displays a currently valid OMB control number. The interim guidance contains no new collections of information under the PRA beyond those contained in Appendices 1 and 2 to the final rule (stress test rule) implementing the requirements and setting out definitions and rules for scope of application, scenarios, reporting, and disclosure. Under the stress test rule, each year the OCC will distribute stress test scenarios to covered institutions. This document articulates the principles that the OCC will apply to develop and distribute those scenarios for covered institutions.

II. STRESS TESTS

As defined by the stress test rule, a stress test is “a process to assess the potential impact of stressful scenarios on the consolidated earnings, losses, and capital of a covered institution over the planning horizon, taking into account the covered institution’s current condition, risks, exposures, strategies, and activities.” Stress tests help covered institutions and the OCC determine whether those institutions have capital sufficient to absorb losses that could result from adverse economic conditions. The OCC views stress test results as one source of forward-looking information that can help identify downside risks and assess the potential impact of adverse outcomes on capital adequacy. Stress tests are not the only tool the OCC uses for these purposes; a complete assessment of a covered institution’s capital position typically includes review of its capital planning processes, the governance concerning those processes, and the adequacy of capital under established regulatory capital measures. The OCC expects the board of directors and senior management of each covered institution to consider the results of the annual stress test when conducting capital planning, assessing capital adequacy, and evaluating risk management practices. The OCC also may use stress test results to determine whether additional analytical techniques and exercises are appropriate for a covered institution to employ in identifying, measuring, and monitoring risks to the financial soundness of the covered institution.

Under the final rule, each covered institution is required to conduct an annual stress test using its financial data as of September 30 of each year, unless the OCC requires a different “as of” date for any or all categories of financial data. The stress test

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1 See Id. at 61244.

2 1 Annual Stress Test, 77 FR 61238 (October 9, 2012).

3 12 CFR 46.2 (Definition of Stress Test).
must assess the potential impact of specific scenarios on the regulatory capital of the covered institution and on certain related items over a forward-looking planning horizon, taking into account all relevant exposures and activities. Under the final rule, the planning horizon is at least nine quarters, consisting of the fourth quarter of the current calendar year plus all four quarters of each of the two subsequent calendar years.

III. SCENARIOS

Scenarios are sets of conditions that affect the U.S. economy or the financial condition of covered institutions. The OCC annually develops new or modified variables for specifications from year to year, recognizing that the use of new or modified variables for estimation processes and resulting estimates, or other modifications of variables, through its ongoing supervisory processes.

The variables specified for each scenario generally address economic activity, asset prices, and other measures of financial market conditions for the United States and key foreign countries. Variables that describe economic activity likely will include, but not be limited to, the growth rate of gross domestic product, the unemployment rate, and the inflation rate. The OCC anticipates that the path (which reflects the level and rate of change) of the unemployment rate during the planning horizon in particular will be a key variable indicating the severity of economic stress, as this variable provides a simple and widely noted gauge of the state of the U.S. economy. This point is discussed further in this statement in connection with severely adverse scenarios.

Other variables may represent asset prices and financial market conditions, including interest rates. The OCC expects to specify scenarios using a fairly stable core set of variables, although variables may be added or deleted as the U.S. and global economic environment evolves. The OCC will attempt to minimize additions, redefinitions, or re-specifications from year to year, recognizing that the use of new or modified variables for stress tests may require potentially costly systems changes at covered institutions.

The scenarios provided by the OCC reflect at least three sets of economic and financial conditions, described in the rule as baseline, adverse, and severe adverse. The baseline broadly corresponds to the set of conditions expected to prevail over the term of the stress tests. The adverse and severely adverse scenarios introduce hypothetical stress conditions intended to test the safety and soundness of covered institutions as well as their capital planning processes. The OCC will evaluate the adequacy of the projections and the processes used in the company-run stress test. The OCC expects covered institutions to be able to maintain ready access to funding, continue operations, meet obligations to creditors and counterparties, and continue to serve as credit intermediaries under conditions that are significantly more adverse than expected.

The baseline scenario establishes a benchmark set of conditions that incorporates the most current views on the macroeconomic outlook. These views are based on information obtained from government agencies, other public sector organizations, and private sector forecasters as close to the date of the annual stress test as possible. The baseline may be based on one or more of the “consensus” forecasts produced by various organizations, although the OCC may choose to depart from the consensus if necessary to provide a more appropriate baseline for the stress tests.

The adverse scenario is a hypothetical set of conditions designed to simulate a moderate level of stress that covered companies could experience, such as a mild-to-moderate U.S. recession. The adverse scenario may also be used to investigate other risks, perhaps including operational risks, that the OCC believes should be better understood or more closely monitored.

The severely adverse scenario is a set of quite challenging economic and financial conditions, such as those that might be experienced in a relatively severe recession. Three examples of severe recessions from recent U.S. experience may illustrate the anticipated depth of the severely adverse scenario as it relates to the unemployment rate:

- The 1973–75 recession, during which the unemployment rate increased 4.1 percentage points, from 4.9 percent in 1973Q3 to 9.0 percent in 1975Q2 (one quarter after the recession ended).
- The back-to-back recessions in 1980 and 1981–82, during which the unemployment rate increased 4.7 percentage points, from 6.1 percent in 1979Q4 to 10.8 percent in 1982Q4 (the last quarter of the recession).
- The 2007–09 recession, during which the unemployment rate increased 5.3 percentage points, from 4.7 percent in 2007Q3 to 10.0 percent in 2009Q4 (two quarters after the recession ended).

Other variables under the adverse and severely adverse scenarios would be expected to follow paths consistent with the depth and duration of previous recessions and with models of macroeconomic activity. The severe adverse scenario also may reflect other risks that are especially salient and that might not be captured by past recessions, including elevated levels of systemic risk.

The scenarios distributed by the OCC for the stress tests cover at least nine quarters. In addition, the OCC will generally publish scenarios that cover one year beyond the planning horizon of the stress test, to allow for the estimation of loan losses for the year following the stress planning horizon; this additional specification allows covered institutions to determine adequate levels of loan loss reserves.

The OCC believes that as a general matter all covered institutions should use the same set of scenarios and planning horizon so that the OCC can better compare results across institutions. To that end, the OCC intends to provide one set of scenarios for use by all covered institutions. However, the OCC believes there may be circumstances that would warrant the use of different or additional scenarios or a planning horizon of more than nine quarters. Thus, under the stress test rule the OCC reserves the authority to require a covered institution to use different or additional scenarios and/or planning horizons the agency may deem appropriate. For example, a covered institution may conduct business activities or have risk exposures that would encounter stress under conditions significantly different or additional from those that would generate stress for other institutions. The OCC expects such situations to be rare and anticipates making every effort to distribute the same scenarios to all covered institutions.

In addition to the minimum three scenarios, the OCC may require a covered institution with significant trading activities to include factors related to trading and counterparty risk in its stress test. Typically, these factors might include additional shocks to specific market prices, interest rates, yield curves, spreads, or other key market variables consistent with historical or hypothetical adverse market events.

IV. DEVELOPMENT AND DISTRIBUTION

As one part of the process of developing scenarios, the OCC will gather information from outside entities and develop themes for the stress test scenarios, including the identification of potentially material vulnerabilities or salient risks to the financial system, and consider relevant individual variables. The outside entities may include academic experts, staffs of international organizations, foreign supervisors, financial institutions that regularly provide forecasts, and other private sector risk analysts that regularly conduct stress tests based on U.S. and global economic and financial scenarios. The OCC will use the information gathered in this manner to inform its consideration of potential risks and scenarios.

The OCC, the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (Agencies) expect to consult closely to develop scenarios for stress testing. Absent specific supervisory concerns, the OCC anticipates that the annual stress test scenarios distributed by the OCC will be the same as or nearly identical to the scenarios developed by the Board for the supervisory stress tests conducted by the Board under Section 165(i)(1). This would mean the same economic and financial variables following the same paths as used in the scenarios for the Board’s supervisory stress tests.
Although the Agencies generally expect to consult closely on scenario development, they may have different views of risks that should be reflected in the stress test scenarios used by covered institutions for the annual stress test. The OCC may distribute scenarios to covered institutions that differ in certain respects from those distributed by the FDIC and the Board if necessary to better reflect specific OCC concerns. The OCC expects such situations to be extremely rare, however, and anticipates making every effort to avoid differences in the scenarios required by each agency.

The OCC anticipates that the stress test scenarios will be revised annually as appropriate to ensure that each scenario remains relevant under prevailing economic and industry conditions. These yearly revisions will enable the scenarios to capture evolving risks and vulnerabilities. The need to ensure that scenarios do not become outdated because of economic and financial developments makes a lengthy process of review and comment concerning scenarios prior to distribution each year impractical. However, the process of consultation with the Board and the FDIC, as well as the ongoing interaction of OCC staff with public and private sector experts to obtain views on salient risks and to obtain suggestions for the behavior of key economic variables, should ensure that the stress conditions reflected in the scenarios are well suited to their purpose.

The scenario development process culminates with the distribution of the scenarios to all covered institutions no later than November 15 of each year. The scenario descriptions provided to covered institutions will include values for economic and financial variables depicting the paths those variables follow under the scenarios. The OCC believes that distribution of the scenarios by November 15 aligns with similar processes at the FDIC and the Board.

Dated: November 6, 2012.

Thomas J. Curry,
Comptroller of the Currency.

[FR Doc. 2012–27660 Filed 11–14–12; 8:45 am]

B4–600R, Model A300, and Model A310 series airplanes. This AD was prompted by reports of fatigue cracking in the crossbeams at the junction of the actuator beam of the lower deck cargo door. This AD requires repetitive inspections of the crossbeams of certain fuselage frames, and repair if necessary. We are issuing this AD to detect and correct cracking of the crossbeams at the junction of the actuator beam of the lower deck cargo door, which could result in failure to withstand ultimate load conditions, and consequential reduced structural integrity of the airplane.

DATES: This AD is effective December 20, 2012.

The Director of the Federal Register approved the incorporation by reference of certain publications listed in the AD as of December 20, 2012.

ADDRESS: You may examine the AD docket on the Internet at http://www.regulations.gov or in person at the U.S. Department of Transportation, Docket Operations, M–30, West Building Ground Floor, Room W12–140, 1200 New Jersey Avenue SE., Washington, DC.


SUPPLEMENTAL INFORMATION:

Discussion

We issued a notice of proposed rulemaking (NPRM) to amend 14 CFR part 39 to include an AD that would apply to the specified products. That NPRM published in the Federal Register on May 22, 2012 (77 FR 30228). That NPRM proposed to correct an unsafe condition for the specified products. The Mandatory Continuing Airworthiness Information (MCAI) states:

Some operators have reported cracked crossbeams at the junction with the lower deck cargo door actuator beam. The investigation results indicate that these cracks initiated in the fastener hole, propagated in a vertical direction and were due to fatigue.

This condition, if not corrected, could lead, in case of cracks propagation in a crossbeam (upper and lower web), to the floor grid being unable to withstand ultimate load condition. For the reasons described above, this [European Aviation Safety Agency (EASA)] AD requires repetitive [high frequency eddy current] inspections [for cracks] of certain crossbeams including those previously repaired by the Structure Repair Manual (SRM) or Repair Approval Sheet (RAS).

The required actions include repairing any cracking. As an option, modifying the crossbeams terminates the repetitive inspections. You may obtain further information by examining the MCAI in the AD docket.

Comments

We gave the public the opportunity to participate in developing this AD. The following presents the comments received on the proposal (77 FR 30228, May 22, 2012) and the FAA’s response to each comment.

Request To Clarify That Freighter Airplanes Are Not Affected

UPS stated that the NPRM (77 FR 30228, May 22, 2012) does not apply to its Model A300 F4–622R airplanes.

We infer that the commenter is asking for clarification that its airplanes are not affected by the proposed requirements. Freighter airplanes identified as freighters on the initial certificate of airworthiness are excluded from the applicability in this AD. The loads distribution via the main deck cargo loading system onto the floor grid is different from passenger airplanes. In addition, the European Aviation Safety Agency (EASA), which is the aviation authority for the Member States of the European Community, has granted an alternative method of compliance (AMOC) for Airbus airplanes converted from passenger to freighter configuration by EASA supplemental type certificate (STC). We have changed the applicability in paragraph (c) of this AD to exclude airplanes converted by the equivalent FAA STCs ST01431NY, ST00177LA–D, and ST00100NY.

Request To Extend Repetitive Inspection Interval/Eliminate Compliance Time for Corrective Action

FedEx asked that the repetitive inspection interval specified in paragraph (g) of the NPRM (77 FR 30228, May 22, 2012), be extended from 600 flight cycles to within 1,500 flight cycles or 24 months after the effective date of the AD, whichever occurs first. FedEx stated that the current repetitive inspection interval is ten times more frequent than the 6,000-flight-cycle interval in the existing airworthiness limitations items and maintenance review board requirements. FedEx added that these maintenance program items have been performed regularly at FedEx and have yielded few findings. FedEx noted that this extension will coincide with its regular maintenance check schedule.

FedEx also stated that paragraph (g)(2) of the NPRM (77 FR 30228, May 22, 2012) specifies that, if a prior repair has