

**V. Approval of the Office of the Secretary**

The Secretary of Energy has approved publication of today's final rule.

**List of Subjects in 10 CFR Part 430**

Administrative practice and procedure, Energy conservation, Household appliances.

Issued in Washington, DC, on November 25, 2013.

**David T. Danielson,**

*Assistant Secretary, Energy Efficiency and Renewable Energy.*

For the reasons set forth in the preamble, DOE hereby amends part 430 of chapter II, subchapter D, of title 10 of the Code of Federal Regulations, as set forth below:

**PART 430—ENERGY CONSERVATION PROGRAM FOR CONSUMER PRODUCTS**

■ 1. The authority citation for Part 430 continues to read as follows:

**Authority:** 42 U.S.C. 6291–6309; 28 U.S.C. 2461 note.

■ 2. Section 430.2 is amended by revising the definition of “Small duct, high velocity system” to read as follows:

**§ 430.2 Definitions.**

\* \* \* \* \*

*Small duct, high velocity system* means a heating and cooling product that contains a blower and indoor coil combination that—

(1) Is designed for, and produces, at least 1.2 inches of external static pressure when operated at the certified air volume rate of 220–350 CFM per rated ton of cooling; and

(2) When applied in the field, uses high velocity room outlets generally greater than 1,000 fpm that have less than 6.0 square inches of free area.

\* \* \* \* \*

**§ 430.32 [Amended]**

■ 3. Section 430.32 is amended:

- a. In the table for paragraph (c)(2):
  - 1. First column, by removing the footnote designation from rows (v)(A) and (v)(B) and adding it after “class” in the heading of the first column;
  - 2. Row (vi) in the second column, by removing “13” and adding in its place, “11”, and in the third column by removing “7.7” and adding in its place, “6.8”;
  - b. In the table for paragraph (c)(3), row (v) in the second column, by removing “13” and adding in its place, “12”, and in the third column by removing “7.7” and adding in its place, “7.2”.

[FR Doc. 2013–28768 Filed 12–2–13; 8:45 am]

**BILLING CODE 6450–01–P**

**FEDERAL DEPOSIT INSURANCE CORPORATION**

**12 CFR Part 325**

**Policy Statement on the Principles for Development and Distribution of Annual Stress Test Scenarios**

**AGENCY:** Federal Deposit Insurance Corporation.

**ACTION:** Final guidance.

**SUMMARY:** Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Section 165(i)”) requires the Federal Deposit Insurance Corporation (the “FDIC” or “Corporation”) to issue regulations that mandate FDIC-insured state nonmember banks and FDIC-insured state-chartered savings associations with total consolidated assets of more than \$10 billion (“covered banks”) to conduct annual stress tests, report the results of such stress tests to the Corporation and the Board of Governors of the Federal Reserve System (“Board of Governors”), and publish a summary of the results of the stress tests. On October 15, 2012, the FDIC published in the **Federal Register** a final rule implementing the

requirements of Section 165(i) (the “Stress Test Rule”). Under the Stress Test Rule covered banks are required to conduct annual stress tests using a minimum of three stress test scenarios (baseline, adverse, and severely adverse) provided by the FDIC. On November 20, 2012, the FDIC published in the **Federal Register** interim guidance setting forth the general processes and factors to be used by the FDIC in developing and distributing the stress test scenarios. The FDIC is now adopting the interim guidance as final without change, except for two technical corrections.

**DATES: Effective Date:** The final guidance is effective January 2, 2014.

**FOR FURTHER INFORMATION CONTACT:** Ryan Sheller, Senior Large Financial Institutions Specialist, (202) 412–4861, Division of Risk Management and Supervision; Rachel Jones, Attorney, (202) 898–6858, or Grace Pyun, Attorney, (202) 898–3609, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street NW., Washington, DC 20429.

**SUPPLEMENTARY INFORMATION:**

**I. Background**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted on July 21, 2010 (the “Dodd-Frank Act”).<sup>1</sup> Section 165(i) of the Dodd-Frank Act requires the FDIC, as a Federal primary financial regulatory agency, to issue regulations that mandate covered banks to conduct annual stress tests. On October 15, 2012, the FDIC issued the Stress Test Rule, which implemented the requirements of Section 165(i) and set out definitions and rules for scope of application, scenarios, reporting, and disclosure.<sup>2</sup> Under the Stress Test Rule, covered banks are required to conduct annual stress tests based on the annual stress test cycle set out in Table 1.

**PROCESS OVERVIEW OF ANNUAL STRESS TEST**

[Using data as of September 30th]

Step	Timeframe for over \$50 billion covered banks	Timeframe for \$10 billion to \$50 billion covered banks
1. FDIC provides covered banks with scenarios for annual stress tests.	No later than November 15th .....	No later than November 15th.
2. Covered banks submit required regulatory reports to the FDIC on their stress tests.	No later than January 5th .....	No later than March 31st. <sup>3</sup>
3. Covered banks make required public disclosures ....	Between March 15th and March 31st .....	Between June 15th and June 30th.

<sup>1</sup> Public Law 111–203, 124 Stat. 1376 (2010).

<sup>2</sup> 77 FR 62417 (Oct. 15, 2012).

<sup>3</sup> A covered bank that is a subsidiary of a bank holding company or a savings and loan holding company may elect to report and issue its required

public disclosure on its parent bank holding company's or savings and loan holding company's timeline.

A key component of the annual stress test is the development of the stress test scenarios that are provided to covered banks on or before November 15th of each year by the FDIC. Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a covered bank that the FDIC annually determines are appropriate for use in the stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios. 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 FDIC annually will determine scenarios that are appropriate for use for each annual stress test. The timeline in Table 1 provides that the FDIC will distribute stress test scenarios to covered banks no later than November 15th of each year.

## II. Summary of the Interim Guidance and Comments Received

### A. Summary of the Interim Guidance

The FDIC published interim guidance in the **Federal Register** on November 20, 2012, that articulated the principles the FDIC will apply to develop and distribute the stress test scenarios for covered banks as required by the Stress Test Rule.<sup>4</sup> The interim guidance was effective immediately and, to the extent practicable, to the 2012 annual stress test cycle. The FDIC also solicited comment on all aspects of the interim guidance for purposes of finalizing the guidance and the development and distribution of future stress test scenarios.

### B. Summary of Comments Received

The FDIC received two comments on the interim guidance. One comment from an individual was not in favor of the Stress Test Rule and recommended that the FDIC reconsider finalizing the interim guidance. The FDIC believes the interim guidance gives covered banks and the market the general processes and factors used for scenario development. Furthermore, annual stress tests are necessary because they allow covered banks and the FDIC to determine whether those banks have capital sufficient to absorb losses that could result from adverse economic conditions. The FDIC views stress test results as an important source of forward-looking information that can help identify downside risks and assess

the potential impact of adverse outcomes on capital adequacy. Accordingly, the FDIC has decided to finalize this interim guidance.

The other comment from a public interest group supported the interim guidance and further recommended that the FDIC include mark-to-market losses and short-term funding losses in stress test scenarios. To that end, the commenter recommended expanding the scenarios to state that if mark-to-market losses occur in assets that are funded using short-term borrowing (such as asset back commercial paper or repurchase agreements), the covered bank must explain what steps (for example additional borrowing or asset sales) it would undergo to replace a specified percentage of that funding. The FDIC agrees that covered banks should consider the subsequent liquidity effects stemming from the impact of the stress test scenarios; however, this scenario guidance is developed for covered banks under the Stress Test Rule. The Stress Test Rule focuses on how well covered banks' capital levels withstand hypothetical economic scenarios so that covered banks' management can consider the results for conducting capital planning, assessing capital adequacy, and evaluating risk management practices. The Stress Test Rule does not specifically require covered organizations to detail how they would replace short-term funding losses. Liquidity stress testing is outside the scope of this guidance, however, additional guidance regarding such liquidity stress testing may be considered in the future.

The commenter also recommended that the FDIC disclose additional information about the methods and data used in the stress tests. The commenter requested that the FDIC disclose the specification, statistical fit, or other out-of-sample forecasting properties of the risk models that are used for developing the stress test scenarios. The FDIC views this guidance as providing useful information to covered banks as to how the FDIC develops the economic scenarios including the methods and data used for stress testing while maintaining the flexibility to establish the underlying methods and data properties of risk models for evolving conditions that affect the U.S. economy or the financial condition of a covered bank. Accordingly, the Corporation does not believe that providing detailed scenario specifications would contribute to the broader goal of informing covered banks on the development of economic scenarios.

After reviewing and carefully considering the comments received on the interim guidance, the FDIC is finalizing the guidance without change, except for two technical corrections.

## III. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act ("PRA") of 1995 (44 U.S.C. 3506; 5 CFR Part 1320 Appendix A.1), the FDIC has reviewed this final guidance. The FDIC may not conduct or sponsor, and an organization is not required to respond to, an information collection unless the information collection displays a currently valid OMB control number. The FDIC has conducted a PRA analysis on all related reporting, recordkeeping and disclosure requirements in the Stress Test Rule and submitted them to OMB for review and approval. The request, which has been assigned OMB Control No. 3064-0187, has been approved. No new collection of information pursuant to the PRA is contained in this final guidance. Additionally, the FDIC did not receive any comment on the PRA analysis contained in the interim guidance.

## IV. Principles for Development and Distribution of Annual Stress Test Scenarios

The text of the final guidance is as follows.

### Principles for Development and Distribution of Stress Test Scenarios

#### I. Introduction

Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires certain financial companies, including FDIC-insured state nonmember banks and FDIC-insured state-chartered savings associations with total consolidated assets of more than \$10 billion ("covered banks"), to conduct annual stress tests. The Federal Deposit Insurance Corporation ("FDIC" or "Corporation") published in the **Federal Register** on October 15, 2012, a final rule ("Stress Test Rule") implementing the requirements and setting out definitions and rules for scope of application, scenarios, reporting, and disclosure.<sup>1</sup> Under the Stress Test Rule, each year the FDIC will distribute stress test scenarios to covered banks. This document articulates the principles that the FDIC will apply to develop and distribute those scenarios for covered banks.

#### II. Stress Tests

As defined by the Stress Test Rule, a stress test means "the process to assess

<sup>4</sup> 77 FR 69553 (Nov. 20, 2012).

<sup>1</sup> 77 FR 62417 (Oct. 15, 2012).

the potential impact of scenarios on the consolidated earnings, losses, and capital of a covered bank over the planning horizon, taking into account the current condition of the covered bank and the covered bank's risks, exposures, strategies, and activities."<sup>2</sup> Stress tests help covered banks and the FDIC determine whether those banks have capital sufficient to absorb losses that could result from adverse economic conditions. The FDIC 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 FDIC uses for these purposes; a complete assessment of a covered bank'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 FDIC expects the board of directors and senior management of each covered bank to consider the results of the annual stress test when conducting capital planning, assessing capital adequacy, and evaluating risk management practices.<sup>3</sup> The FDIC also may use stress test results to determine whether additional analytical techniques and exercises are appropriate for a covered bank to employ in identifying, measuring, and monitoring risks to the financial soundness of the covered bank.

Under the Stress Test Rule, each covered bank is required to conduct an annual stress test using its financial data as of September 30th of each year, unless the FDIC requires a different "as of" date for any or all categories of financial data.<sup>4</sup> The stress test must assess the potential impact of specific scenarios on the regulatory capital of the covered bank and on certain related items over a forward-looking planning horizon, taking into account all relevant exposures and activities.<sup>5</sup> Under the Stress Test 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 those sets of conditions that affect the U.S. economy or the financial condition of a covered bank that the Corporation annually determines are appropriate for use in the stress tests, including, but not

limited to, baseline, adverse, and severely adverse scenarios.<sup>6</sup> The FDIC annually will determine scenarios that are appropriate for use under the Stress Test Rule. In conducting the stress test under the Stress Test Rule, each covered bank must use the scenarios provided by the FDIC.

Each scenario includes the values of the variables specified for each quarter over the stress test horizon. The FDIC expects that covered banks may not need to use all of the variables provided and may need to estimate relationships to identify other variables, such as those reflecting local economic conditions, from the values the FDIC provides. The FDIC will review the appropriateness of 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 include, but are not limited to, the growth rate of gross domestic product, the unemployment rate, and the inflation rate. The FDIC anticipates that the path of the unemployment rate 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 FDIC expects to specify scenarios using a standard core set of variables, although variables may be added or deleted as the U.S. and global economic environment evolves. The FDIC will attempt to minimize additions, redefinitions, or re-specifications of the stress test variables from year to year, as the use of such new or different variables may potentially require covered banks to modify their testing systems.

The scenarios provided by the FDIC reflect at least three sets of economic and financial conditions, described in the rule as baseline, adverse, and severely 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 banks as well as their capital

planning processes. The aim is to assess the covered banks' ability to identify and measure the risks they face under adverse conditions, and to ensure that appropriate amounts of capital exist to support those risks. The FDIC will evaluate both the adequacy of the projections and the processes used in the stress test. The FDIC expects covered banks 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 means a set of conditions that affect the U.S. economy or the financial condition of a covered bank, and that reflect the consensus views of the economic and financial outlook.<sup>7</sup> 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 FDIC may choose to depart from the consensus if necessary to provide a more appropriate baseline for the stress tests.

The *adverse* scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered bank that are more adverse than those associated with the baseline scenario and may include trading or other additional components.<sup>8</sup> The adverse scenario may also be used to investigate other risks, such as including operational risks that the FDIC believes should be better understood or more closely monitored.

The *severely adverse* scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered bank and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.<sup>9</sup> 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 third quarter 1973 to 9.0 percent in second quarter 1975 (one quarter after the recession ended).

<sup>2</sup> 12 CFR 325.202(l).

<sup>3</sup> *Id.* at 325.205(b)(3).

<sup>4</sup> *Id.* at 325.201(c)(2) and 325.203(a).

<sup>5</sup> *Id.* at 325.205(a).

<sup>6</sup> *Id.* at 325.202(i).

<sup>7</sup> *Id.* at 325.202(c).

<sup>8</sup> *Id.* at 325.202(a).

<sup>9</sup> *Id.* at 325.202(j).

- 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 fourth quarter 1979 to 10.8 percent in fourth quarter 1982 (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 third quarter 2007 to 10.0 percent in fourth quarter 2009 (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 severely 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 FDIC for the stress tests will cover at least nine quarters. In addition, the FDIC 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 banks to determine adequate levels of loan loss reserves.

The FDIC believes that as a general matter all covered banks should use the same set of scenarios and planning horizon so that the FDIC can better compare results across covered banks. To that end, the FDIC intends to provide one set of scenarios for use by all covered banks. However, the FDIC 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 FDIC reserves the authority to require a covered bank to use different or additional scenarios and/or planning horizons the Corporation may deem appropriate.<sup>10</sup> For example, a covered bank may conduct business activities or have risk exposures that would encounter stress under conditions that differ materially from those that would generate stress for other banks. The FDIC expects such situations to be rare and anticipates making every effort to distribute the same scenarios to all covered banks.

In addition to the minimum three scenarios, the FDIC may require a covered bank 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, rate 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 FDIC 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 potential paths for 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 FDIC will use the information gathered in this manner to inform its consideration of potential risks and scenarios.

The Office of the Comptroller of the Currency (“OCC”), the Board of Governors of the Federal Reserve System (“Board”), and the FDIC (collectively, the “Agencies”) expect to consult closely to develop scenarios for stress testing. Absent specific supervisory concerns, the FDIC anticipates that the annual stress test scenarios distributed by the FDIC 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 banks for the annual stress test. The FDIC may distribute scenarios to covered banks that differ in certain respects from those distributed by the OCC and the Board if necessary to better reflect specific FDIC concerns. The FDIC expects such situations to be extremely rare, however, and anticipates making every effort to avoid differences in the scenarios required by each agency.

The FDIC 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 OCC, as well as the ongoing interaction of FDIC 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 banks no later than November 15th of each year. The scenario descriptions provided to covered banks will include values for economic and financial variables depicting the paths those variables follow under the scenarios. The FDIC believes that distribution of the scenarios no later than November 15th aligns with similar processes at the OCC and the Board.

Federal Deposit Insurance Corporation.

Dated at Washington, DC, this 25th day of November, 2013.

**Robert E. Feldman,**  
*Executive Secretary.*

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**BILLING CODE 6714–01–P**

## NATIONAL CREDIT UNION ADMINISTRATION

### 12 CFR Parts 712 and 741

RIN 3133–AD93

#### Credit Union Service Organizations

**AGENCY:** National Credit Union Administration (NCUA).

**ACTION:** Final rule.

**SUMMARY:** NCUA is issuing a final rule to amend its credit union service organization (CUSO) regulation to increase transparency and address certain safety and soundness concerns. The final rule expands the requirements of the CUSO regulation that apply to federally insured, state-chartered credit unions (FISCUs) to address accounting, financial statements, and audits. The final rule also includes limits on the ability of “less than adequately capitalized” FISCUs to recapitalize their CUSOs. In addition, it adds several new requirements that apply to both federal credit unions (FCUs) and FISCUs. Specifically, all CUSOs are required to annually provide basic profile

<sup>10</sup> *Id.* at 325.201(c).