I. Background

Section 401 of the EGRRCPA, (Pub. L. 115–174, section 401) amended the Dodd-Frank Act requirements to implement stress testing. Prior to the passage of the EGRRCPA, section 165(i) of the Dodd-Frank Act required each financial company with total consolidated assets of more than $10 billion to conduct annual stress tests. In addition, section 165 required FHFA to issue regulations for regulated entities to conduct their stress tests, which were required to include at least three different stress testing scenarios: “baseline,” “adverse,” and “severely adverse.”

In September 2013, FHFA published in the Federal Register a final rule implementing the Dodd-Frank Act stress testing requirements. FHFA’s regulation, located at 12 CFR part 1238, requires each regulated entity to conduct an annual stress test based on scenarios provided by FHFA and consistent with FHFA prescribed methodologies and practices. The regulation also requires that the agency issue to the regulated entities stress test scenarios that are generally consistent with and comparable to those developed by the FRB not later than 30 days after the FRB publishes its scenarios.

Section 401 of EGRRCPA amended certain aspects of the stress testing requirements applicable to financial companies in section 165(i) of the Dodd-Frank Act. Specifically, after 18 months, section 401 of EGRRCPA raises the minimum asset threshold for application of the stress testing requirement from $10 billion to $250 billion in total consolidated assets, revises the requirement for financial companies to conduct stress tests "annually," and instead requires them to conduct stress tests "periodically," and no longer requires the stress test to include an "adverse" scenario, thus reducing the number of required stress test scenarios from three to two.

II. Discussion of Public Comments

On December 16, 2019, FHFA published in the Federal Register proposed amendments to the stress testing requirements for the regulated entities. The comment period closed on January 15, 2020. FHFA received one comment which stated that the threshold of $250 billion in total consolidated assets was too high and lowering the threshold to $100 billion in total consolidated assets would be more appropriate. EGRRCPA set the threshold at $250 billion in total consolidated assets and the proposed rule reflects this statutory requirement. The Enterprises will continue to be covered by the rule at its new threshold, however, the Banks will not. After several years of assessing the Banks’ stress tests, FHFA believes that its other supervision tools are sufficient for the agency’s purposes, and that the additional burden on the Banks of conducting the annual stress tests is not necessary. FHFA retains under its general supervisory powers the discretion to require stress testing by the Banks if FHFA determines that it would be useful. Therefore, FHFA is adopting as its final rule the same rule proposed on December 16, 2019, without any change.

III. Summary of Final Rule

FHFA is adopting the proposed revisions to FHFA’s rule without change as follows: The rule discontinues the Dodd-Frank Act stress testing of the Banks; prescribes the frequency of stress testing; and reduces the number of scenarios mandated for Enterprise Dodd-Frank Act stress testing. These revisions are described in more detail below.

A. Minimum Asset Threshold

As described above, section 401 of EGRRCPA amends section 165 of the Dodd-Frank Act by raising the minimum threshold for financial companies required to conduct stress tests from $10 billion to $250 billion. As there are no Banks with total consolidated assets of over $250 billion, the Banks will no longer be subject to the stress testing requirements of this rule. As the total consolidated assets for each Enterprise exceeded the $250 billion threshold, the Enterprises remain subject to stress testing under this rule.

---

* 12 CFR 1238.3(b).
B. Frequency of Stress Testing

Section 401 of EGRRCPA also revised the requirement under section 165 of the Dodd-Frank Act for financial companies to conduct stress tests, changing the required frequency from “annual” to “periodic.” The term “periodic” is not defined in EGRRCPA. Because of the Enterprises’ total consolidated asset amounts, their function in the mortgage market, size of their retained portfolios, and their share of the mortgage securitization market, FHFA will continue to require the Enterprises to conduct stress tests on an annual basis. This is consistent with FHFA’s regulatory mission to ensure each of the regulated entities “operates in a safe and sound manner.”

C. Removal of the “Adverse” Scenario

As discussed above, section 401 of EGRRCPA amends section 165(i) of the Dodd-Frank Act to no longer require the FRB to include an “adverse” stress-testing scenario, reducing the number of stress test scenarios from three to two. The “baseline” scenario is a set of conditions that affect the U.S. economy or the financial condition of the regulated entities, and that reflect the consensus views of the economic and financial outlook, and the “severely adverse” scenario is a more severe set of conditions and the most stringent of the former three scenarios. Although the “adverse” scenario has provided some additional value in limited circumstances, the “baseline” and “severely adverse” scenarios largely cover the full range of expected and stressful conditions. Therefore FHFA does not consider it necessary, for its supervisory purposes, to require the additional burden of analyzing an “adverse” scenario.

IV. Coordination With the FRB and the Federal Insurance Office

In accordance with section 165(i)(2)(C), FHFA has coordinated with both the FRB and the Federal Insurance Office (FIO). On November 1, 2019, the FRB published a final rule which revised “the minimum threshold for state member banks to conduct stress tests from $10 billion to $250 billion,” and revised “the frequency with which state member banks with assets greater than $250 billion would be required to conduct stress tests,” in addition to removing the adverse scenario from the list of required scenarios. The FDIC adopted its final rule; and the OCC its final rule. Although FHFA’s final rule is not identical to those of the FRB, the FDIC, and the OCC, it is consistent and comparable with them.

V. Paperwork Reduction Act

The final rule does not contain any collections of information pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501, et seq.). Therefore, FHFA has not submitted any information to the Office of Management and Budget for review.

VI. Administrative Procedure Act

This final rule is effective immediately upon publication in the Federal Register.

VII. Regulatory Flexibility Act

The final rule applies only to the regulated entities, which do not come within the meaning of small entities as defined in the Regulatory Flexibility Act (see 5 U.S.C. 601(6)). Therefore, in accordance with section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 605(b)), the General Counsel of FHFA certifies that this final rule will not have a significant economic impact on a substantial number of small entities.

VIII. Congressional Review Act

In accordance with the Congressional Review Act (5 U.S.C. 801 et seq.), FHFA has determined that this final rule is not a major rule and has verified this determination with the Office of Information and Regulatory Affairs of the OMB.
disclosure of the Enterprises’ capital condition by requiring broad dissemination of the stress test scenarios and results.

3. Revise §1238.2 to read as follows:

§1238.2 Definitions.

For purposes of this part, the following definitions apply:

Planning horizon means the period of time over which the stress projections must extend. The planning horizon cannot be less than nine quarters.

Scenarios are sets of economic and financial conditions used in the Enterprises’ stress tests, including baseline and severely adverse.

Stress test is a process to assess the potential impact on an Enterprise of economic and financial conditions (“scenarios”) on the consolidated earnings, losses, and capital of the Enterprise over a set planning horizon, taking into account the current condition of the Enterprise and the Enterprise’s risks, exposures, strategies, and activities.

4. Revise §1238.3 to read as follows:

§1238.3 Annual stress test.

(a) In general. Each Enterprise:

(1) Shall complete an annual stress test of itself based on its data as of December 31 of the preceding calendar year;

(2) The stress test shall be conducted in accordance with this section and the methodologies and practices described in §1238.4 and in a supplemental guidance or order.

(b) Scenarios provided by FHFA. In conducting its annual stress tests under this section, each Enterprise must use scenarios provided by FHFA, which shall be generally consistent with and comparable to those established by the FRB, that reflect a minimum of two sets of economic and financial conditions, including a baseline and severely adverse scenario. Not later than 30 days after the FRB publishes its scenarios, FHFA will issue to the Enterprises a description of the baseline and severely adverse scenarios and methodologies to be used in conducting the annual stress test.

(d) Controls and oversight of the stress testing processes. (1) The appropriate senior management of each Enterprise must ensure that the Enterprise establishes and maintains a system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the Enterprises are effective in meeting the requirements of this part. These policies and procedures must, at a minimum, describe the Enterprise’s testing practices and methodologies, validation and use of stress test results, and processes for updating the Enterprise’s stress testing practices consistent with relevant supervisory guidance;

(2) The board of directors, or a designated committee thereof, shall review and approve the policies and procedures established to comply with this part as frequently as economic conditions or the condition of the Enterprise warrants, but at least annually; and

(3) Senior management of the Enterprise and each member of the board of directors shall receive a summary of the stress test results.

5. Revise §1238.4 to read as follows:

§1238.4 Methodologies and practices.

(a) Potential impact. Except as noted in this subpart, in conducting a stress test under §1238.3, each Enterprise shall calculate how each of the following is affected during each quarter of the stress test planning horizon, for each scenario:

(1) Potential losses, pre-provision net revenues, and future pro forma capital positions over the planning horizon; and

(2) Capital levels and capital ratios, including regulatory capital and net worth, and any other capital ratios specified by FHFA.

(b) Planning horizon. Each Enterprise shall use a planning horizon of at least nine quarters over which the impact of specified scenarios would be assessed.

(c) Additional analytical techniques. If FHFA determines that the stress test methodologies and practices of an Enterprise are deficient, FHFA may determine that additional or alternative analytical techniques and exercises are appropriate for an Enterprise to use in identifying, measuring, and monitoring risks to the financial soundness of the Enterprise, and require an Enterprise to implement such techniques and exercises in order to fulfill the requirements of this part. In addition, FHFA will issue guidance annually to describe the baseline and severely adverse scenarios, and methodologies to be used in conducting the annual stress test.

6. Revise §1238.5 to read as follows:

§1238.5 Required report to FHFA and FRB of stress test results and related information.

(a) Report required for stress tests. On or before May 20 of each year, the Enterprises must report the results of the stress tests required under §1238.3 to FHFA, and to the FRB, in accordance with paragraph (b) of this section;

(b) Content of the report for annual stress test. Each Enterprise must file a report in the manner and form established by FHFA.

(c) Confidential treatment of information submitted. Reports submitted to FHFA under this part are FHFA property and records (as defined in 12 CFR part 1202). The reports are and include non-public information contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of, FHFA in connection with the performance of the agency’s responsibilities regulating or supervising the Enterprises.

Disclosure of any reports submitted to FHFA or the information contained in any such report is prohibited unless authorized by this part, legal obligation, or otherwise by the Director of FHFA.

7. Revise §1238.6 to read as follows:

§1238.6 Post-assessment actions by the Enterprises.

Each Enterprise shall take the results of the stress test conducted under §1238.3 into account in making changes, as appropriate, to the Enterprise’s capital structure (including the level and composition of capital); its exposures, concentrations, and risk positions; any plans for recovery and resolution; and to improve overall risk management. If an Enterprise is under FHFA conservatorship, any post-assessment actions shall require prior FHFA approval.

8. Revise §1238.7 to read as follows:

§1238.7 Publication of results by regulated entities.

(a) Public disclosure of results required for stress tests of the Enterprises. The Enterprises must disclose publicly a summary of the stress test results for the severely adverse scenario not earlier than August 1 and not later than August 15 of each year. The summary may be published on the Enterprise’s website or in any other form that is reasonably accessible to the public.

(b) Information to be disclosed in the summary. The information disclosed by each Enterprise shall, at minimum, include—

(1) A description of the types of risks being included in the stress test;

(2) A high-level description of the scenario provided by FHFA, including key variables (such as GDP, unemployment rate, housing prices, and foreclosure rate, etc.);

(3) A general description of the methodologies employed to estimate losses, pre-provision net revenue, and changes in capital positions over the planning horizon;
(4) A general description of the use of the required stress test as one element in an Enterprise’s overall capital planning and capital assessment. If an Enterprise is under conservatorship, this description shall be coordinated with FHFA;

(5) Aggregate losses, pre-provision net revenue, net income, net worth, pro forma capital levels and capital ratios (including regulatory and any other capital ratios specified by FHFA) over the planning horizon, under the scenario; and

(6) Such other data fields, in such form (e.g., aggregated), as the Director may require.

Mark A. Calabria,
Director, Federal Housing Finance Agency.

[FR Doc. 2020–05476 Filed 3–23–20; 8:45 am]
BILLING CODE 8070–01–P

DEPARTMENT OF TRANSPORTATION
Federal Aviation Administration

14 CFR Part 39


RIN 2120–AA64

Airworthiness Directives; MD Helicopters Inc. Helicopters

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Final rule.

SUMMARY: The FAA is adopting a new airworthiness directive (AD) for MD Helicopters Inc. (MDHI) Model 600N helicopters. This AD requires establishing a life limit for the main rotor (M/R) blade upper control collective/longitudinal link assembly (link assembly). This AD was prompted by the discovery that the life limit was omitted from the maintenance manual. The actions of this AD are intended to prevent an unsafe condition on these products.

DATES: This AD is effective April 28, 2020.

ADDRESSES: For service information related to this final rule, contact MD Helicopters, Inc., Attn: Customer Support Division, 4555 E. McDowell Rd., Mail Stop M615, Mesa, AZ 85215–9734; telephone 1–800–388–3378; fax 480–946–6813; or at https://www.mdhelicopters.com. You may review this service information at the FAA, Office of the Regional Counsel, Southwest Region, 10101 Hillwood Pkwy., Room 6N–321, Fort Worth, TX 76177. For information on the availability of this material at the FAA, call 817–222–5110.

EXAMINING THE AD DOCKET


FOR FURTHER INFORMATION CONTACT:

Payman Soltani, Aerospace Engineer, Airframe Section, Los Angeles ACO Branch, Compliance and Airworthiness Division, FAA, 3960 Paramount Blvd., Lakewood, California 90712; telephone 562–627–5313; email payman.soltani@faa.gov.

SUPPLEMENTARY INFORMATION:

Discussion

The FAA issued a notice of proposed rulemaking (NPRM) to amend 14 CFR part 39 by adding an AD that would apply to MDHI Model 600N helicopters with a yaw stability augmentation system and with an M/R link assembly part number (P/N) 600N7617–1 installed. The NPRM published in the Federal Register on September 10, 2018 (83 FR 45580). The NPRM was prompted by a report from MDHI that during a review of the Airworthiness Limitations section of the applicable maintenance manual, MDHI discovered that it did not include a life limit for link assemblies installed on MDHI Model 600N helicopters with a yaw stability augmentation system. Link assembly P/N 600N7617–1, which is made of aluminum, is a life-limited part with a life limit of 15,000 hours time-in-service (TIS). MDHI subsequently revised the Airworthiness Limitations section of the maintenance manual to include the life limit. The NPRM proposed to require creating a component history card or equivalent record for each affected link assembly, if one does not exist, and recording a life limit of 15,000 hours TIS. This NPRM also proposed to require determining the hours TIS of the link assembly and removing the link assembly from service according to the new life limit. The proposed requirements were intended to prevent a link assembly remaining in service beyond its life limit, which could result in fatigue failure, loss of M/R blade pitch control, and subsequent loss of helicopter control.

Comments

The FAA gave the public the opportunity to participate in developing this final rule. The following presents the comments received on the NPRM and the FAA’s response to each comment.

Request

MDHI expressed concern that the requirements proposed by the NPRM do not definitively eliminate the risk of a life limit being exceeded.

MDHI stated that link assembly P/N 600N7617–1 is not serialized and is aware that link assemblies have been installed on aircraft with multiple serial numbers, possibly indicating that link assemblies P/N 600N7617–1 may not have a reliable TIS record. MDHI also stated if the TIS is unknown, arbitrarily setting the TIS to the aircraft hours may not adequately reflect the actual TIS of link assembly P/N 600N7617–1.

FAA Response

The FAA acknowledges link assembly P/N 600N7617–1 is not serialized and the possibility of cross-installation on multiple aircraft. However, the FAA has determined that using the hours TIS of the helicopter mitigates the risk to an acceptable level because there is a small number of link assemblies P/N 600N7617–1 in service, the usage rate for MDHI Model 600N helicopters is similar throughout the fleet, and the 15,000 hours TIS life limit includes a built-in life reduction for different variabilities.

Request

MDHI requested the FAA mandate the replacement of link assembly P/N 600N7617–1 with link assembly P/N 600N7617–5. MDHI explained that installation of link assembly P/N 600N7617–5 is consistent with production and field modification installations of the yaw stability augmentation system (YNAS), which requires installation of link assembly P/N 600N7617–5, and that link assembly P/N 600N7617–5 is not subject to life-limiting fatigue, therefore eliminating this potential safety risk.

FAA Response

The FAA agrees that replacing link assembly P/N 600N7617–1 with link assembly P/N 600N7617–5 is beneficial but disagrees that the replacement is required for airworthiness. Link