

§ 325.3

12 CFR Ch. III (1–1–23 Edition)

(b) *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.

(c) *Covered bank* means any state nonmember bank or state savings association with average total consolidated assets calculated as required under this part that are greater than \$250 billion.

(d) *Planning horizon* means the period of at least nine quarters over which the relevant projections extend.

(e) *Pre-provision net revenue* means the sum of net interest income and non-interest income, less expenses, before adjusting for loss provisions.

(f) *Provision for credit losses* means:

(1) Until December 31, 2019:

(i) With respect to a state nonmember bank or state savings association that has not adopted the current expected credit losses methodology under U.S. generally accepted accounting principles (GAAP), the provision for loan and lease losses as reported on the Call Report in the current stress test cycle; and,

(ii) With respect to a state nonmember bank or state savings association that has adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses, as would be calculated and reported on the Call Report by a state nonmember bank or state savings association that has not adopted the current expected credit losses methodology under GAAP; and

(2) Beginning January 1, 2020:

(i) With respect to a state nonmember bank or state savings association that has adopted the current expected credit losses methodology under GAAP, the provision for credit losses, as reported in the Call Report in the current stress test cycle; and

(ii) With respect to a state nonmember bank or state savings association that has not adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses as would be reported in the Call Report in the current stress test cycle.

(g) *Regulatory capital ratio* means a capital ratio for which the Corporation established minimum requirements by

regulation or order, including the leverage ratio and tier 1 and total risk-based capital ratios applicable to that covered bank as calculated under the Corporation's regulations.

(h) *Reporting year* means the calendar year in which a covered institution must conduct, report, and publish its stress test, as required under 12 CFR 325.4(d).

(i) *Scenarios* are those sets of conditions that affect the U.S. economy or the financial condition of a covered bank that the Corporation determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline and severely adverse scenarios.

(j) *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 significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

(k) *State nonmember bank* and *state savings association* have the same meanings as those terms are defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813).

(l) *Stress test* means the process to assess 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.

(m) *Stress test cycle* means the period beginning January 1 of a reporting year and ending on December 31 of that reporting year.

[77 FR 62424, Oct. 15, 2012, as amended at 79 FR 69368, Nov. 21, 2014. Redesignated at 83 FR 17740, Apr. 24, 2018, as amended at 84 FR 4249, Feb. 14, 2019; 84 FR 56933, Oct. 24, 2019]

§ 325.3 Applicability.

(a) *Covered banks subject to stress testing.* (1) A state nonmember bank or state savings association that is a covered bank as of December 31, 2019, is subject to the requirements of this part for the 2020 reporting year.

(2) A state nonmember bank or state savings association that becomes a covered bank after December 31, 2019, shall conduct its first stress test under

Federal Deposit Insurance Corporation

§ 325.5

this part in the first reporting year that begins more than three calendar quarters after the date the state non-member bank or state savings association becomes a covered bank, unless otherwise determined by the Corporation in writing.

(b) *Ceasing to be a covered bank.* A covered bank shall remain subject to the stress test requirements of this part unless and until total consolidated assets of the covered bank falls to \$250 billion or less for each of four consecutive quarters as reported on the covered bank's most recent Call Reports. The calculation will be effective on the as-of date of the fourth consecutive Call Report.

(c) *Covered bank subsidiaries of a bank holding company or savings and loan holding company subject to periodic stress test requirements.* (1) Notwithstanding the requirements applicable to covered banks under this section, a covered bank that is a consolidated subsidiary of a bank holding company or savings and loan holding company that is required to conduct a periodic company-run stress test under applicable regulations of the Board of Governors of the Federal Reserve System may elect to conduct its stress test and report to the FDIC on the same timeline as its parent bank holding company or savings and loan holding company.

(2) A covered bank that elects to conduct its stress test under paragraph (c)(1) of this section will remain subject to the same timeline requirements of its parent company until otherwise approved by the FDIC.

[84 FR 56933, Oct. 24, 2019; 84 FR 64985, Nov. 26, 2019]

§ 325.4 Periodic stress tests required.

Each covered bank must conduct the periodic stress test under this part subject to the following requirements:

(a) *Financial data.* A covered bank must use financial data as of December 31 of the calendar year prior to the reporting year.

(b) *Scenarios provided by the Corporation.* In conducting the stress test under this part, each covered bank must use the scenarios provided by the Corporation. The scenarios provided by the Corporation will reflect a minimum of two sets of economic and fi-

nanacial conditions, including baseline and severely adverse scenarios. The Corporation will provide a description of the scenarios required to be used by each covered bank no later than February 15 of the reporting year.

(c) *Significant trading activities.* The Corporation may require a covered bank with significant trading activities, as determined by the Corporation, to include trading and counterparty components in its severely adverse scenarios. The trading and counterparty position data used in this component will be as of a date between October 1 of the year preceding the reporting year and March 1 of the reporting year, and the Corporation will communicate a description of the component to the covered bank no later than March 1 of the reporting year.

(d) *Frequency.* A covered bank that is consolidated under a holding company that is required, pursuant to applicable regulations of the Board of Governors of the Federal Reserve System, to conduct a stress test at least once every calendar year must treat every calendar year as a reporting year, unless otherwise determined by the Corporation. All other covered banks must treat every even-numbered calendar year beginning January 1, 2020 (*i.e.*, 2020, 2022, 2024, 2026, etc.), as a reporting year, unless otherwise determined by the Corporation.

[84 FR 56934, Oct. 24, 2019]

§ 325.5 Methodologies and practices.

(a) *Potential impact on capital.* In conducting a stress test under this part, during each quarter of the planning horizon, each covered bank must estimate the following for each scenario required to be used:

(1) Pre-provision net revenues, losses, provision for credit losses, and net income; and

(2) The potential impact on the regulatory capital levels and ratios applicable to the covered bank, and any other capital ratios specified by the Corporation, incorporating the effects of any capital action over the planning horizon and maintenance of an allowance for loan losses or adjusted allowance for credit losses, as appropriate, for credit exposures throughout the planning horizon.