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DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Part 46

[Docket No. OCC–2012–0016]

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

AGENCY: Office of the Comptroller of the Currency (OCC), Treasury.

ACTION: Interim guidance with request for public comment.

SUMMARY: This interim guidance sets forth the general processes and factors to be used by the OCC in development and distributing the stress test scenarios for the annual stress test required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 as implemented by the Annual Stress Test final rule (Stress Test Rule) published on October 9, 2012. Under the Stress Test Rule national banks and Federal savings associations with total consolidated assets of more than $10 billion (covered institutions) are required to conduct annual stress tests using a minimum of three scenarios (baseline, adverse and severely adverse) provided by the OCC. The Stress Test Rule specified that the OCC will provide the required scenarios to the covered institutions by November 15th of each year.

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

ADDRESSES: Because paper mail in the Washington, DC area and at the OCC is subject to delay, commenters are encouraged to submit comments by email if possible. Please use the title ''Policy Statement on Principles for Development and Distribution of Annual Stress Test Scenarios'' to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

- *Email: regs.comments@occ.treas.gov.*
- *Mail:* Office of the Comptroller of the Currency, 250 E Street SW., Mail Stop 2–3, Washington, DC 20219.
- *Fax:* (202) 874–5274.
- *Hand Delivery/Courier:* 250 E Street SW., Mail Stop 2–3, Washington, DC 20219.
- *Instructions:* You must include ''OCC'' as the agency name and ''Docket Number OCC–2012–0016'' in your comment. In general, OCC will enter all comments received into the docket and publish them on the Regulations.gov Web site without change, including any business or personal information that you provide such as name and address information, email addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not enclose any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this notice by any of the following methods:

- *Viewing Comments Personally:* You may personally inspect and photocopy comments at the OCC, 250 E Street SW., Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 874–4700. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments.
- *Docket:* You may also view or request available background documents and project summaries using the methods described above.

FOR FURTHER INFORMATION CONTACT: David Nebhut, Deputy Comptroller for Economic and Policy Analysis, Economic and Policy Analysis (202) 649–5472, Arthur McMahon, Director, International Analysis and Banking Conditions (202) 649–5475, Robert Scavotto, Lead International Expert, International Analysis and Banking Condition (202) 649–5477, Henry Barkhausen, Attorney, Legislative and Regulatory Activities Division (202) 874–5090, or Ron Shimabukuro, Senior Counsel, Legislative and Regulatory Activities Division (202) 874–5090, Office of the Comptroller of the Currency, 250 E Street SW., Washington, DC 20219.

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 rule [1] 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 1—PROCESS OVERVIEW OF ANNUAL STRESS TEST CYCLES FOR COVERED INSTITUTIONS

Key step	Over $50 billion	$10 to $50 billion
1. OCC distributes scenarios for annual stress tests.	By November 15	By November 15.

[1] 77 FR 61238 (October 9, 2012).

TABLE 1—PROCESS OVERVIEW OF ANNUAL STRESS TEST CYCLES FOR COVERED INSTITUTIONS—Continued

Key step	Over $50 billion	$10 to $50 billion
2. Covered institutions conduct annual stress test and submit Annual Stress Test Report to the OCC and the Board.	By January 5	By March 31.
3. Covered institutions make required public disclosures.	Between March 15 and March 31	Between June 15 and June 30.

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.[2] 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, and an organization is not required 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 OMB Control No. 1557–0311, the collection covering the Annual Stress Test rulemaking.

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

The text of the proposed 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 national banks and Federal savings associations with total consolidated assets of more than $10 billion (covered institutions), to conduct annual stress tests. The Office of the Comptroller of the Currency (OCC) published in the **Federal Register** on October 9, 2012, a final rule (stress test rule) implementing the requirements and setting out definitions and rules for scope of application, scenarios, reporting, and disclosure.[1] 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."[2]

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

[2] See Id. at 61244.

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

[2] 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.[3] 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.[4] The OCC 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 institution must use the scenarios provided by the OCC.

Each scenario includes the values of the variables specified for each quarter over the stress test horizon. The OCC expects that covered institutions 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 OCC provides. The OCC 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 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 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 institutions as well as their capital planning processes. The aim is to assess the covered institutions' ability to identify and measure the risks it faces under adverse conditions, and to ensure that appropriate amounts of capital exist to support those risks. The OCC will evaluate both 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 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 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 that differ materially 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, 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 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 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 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.

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[3] Id. at 46.6(a).

[4] Id. at 46.2 (Definition of scenarios).

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]

BILLING CODE 4810–33–P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. FAA–2012–0488; Directorate Identifier 2011–NM–106–AD; Amendment 39–17244; AD 2012–22–08]

RIN 2120–AA64

Airworthiness Directives; Airbus Airplanes

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Final rule.

SUMMARY: We are adopting a new airworthiness directive (AD) for certain Airbus Model A300 B4–600 and A300 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 consequent 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.

ADDRESSES: 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.

FOR FURTHER INFORMATION CONTACT: Dan Rodina, Aerospace Engineer, International Branch, ANM–116, Transport Airplane Directorate, FAA, 1601 Lind Avenue SW., Renton, Washington 98057–3356; telephone (425) 227–2125; fax (425) 227–1149.

SUPPLEMENTARY 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