

## News

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### MOODY'S ANALYTICS SURVEY OF BANKS REVEALS CHALLENGES AND EXPECTATIONS FOR EVOLUTION OF 2015 STRESS TEST REQUIREMENTS

NEW YORK, June 12, 2014 --- As North American banks prepare for the next round of stress tests in 2015, they face significant challenges with data management, process automation, and the use of stress testing exercises to inform their decision-making, according to the results of a survey and other feedback gathered by Moody's Analytics.

Moody's Analytics conducted a series of roundtable discussions for banks and regulators involved in the annual Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test (DFAST). Banks are currently awaiting or in the process of responding to regulatory feedback on the most recent round of stress tests as they prepare for changes to next year's exercises.

Chief Risk Officers and others involved in CCAR or DFAST who attended the roundtables discussed three major themes that emerged from this year's stress tests: quantitative modeling versus management judgment; the need for better management of data used in stress tests; and ways to leverage investments in stress testing to enhance bank management.

Participants noted that they also face challenges in overcoming organizational obstacles to efficiently coordinate stress testing activities performed in disparate areas of their institutions. In conducting stress tests, many banks assign distinct tasks to their Treasury, Risk, and Finance departments, leading to data inconsistencies and difficulties in building an enterprise-wide analytical process.

More than 85% of CCAR institutions surveyed also noted that multiple departments contribute to stress testing, with central coordination provided by several business units. Fewer than 5% of those banks perform all stress testing activity within a single team or department, while about 10% conduct their exercises through multiple departments that work with some central controls, but generally make decisions and execute processes independently.

Participants in the survey also noted challenges in deriving business value beyond regulatory compliance, such as the use of stress test results to inform business decisions.

"In order for senior management to use stress tests to run the bank more effectively, institutions need speed and repeatability, which are difficult to obtain without significant additional investment in their IT infrastructure," said David Little, Managing Director at Moody's Analytics. "Because many institutions have information systems built across multiple lines of business, especially at banks that have grown by acquisition, there is a strong need for infrastructure remediation to meet regulatory imperatives."

When asked about their biggest challenges for the 2015 tests, nearly all banks identified a need to enhance their credit models, upgrade their data infrastructure, and improve their stress testing

processes and workflow. They also noted that increased requirements for documentation and validation of stress testing model assumptions is leading to quantitative approaches favored over qualitative management judgment.

“It is no longer sufficient for banks to simply complete a stress test and submit results. They are now required to demonstrate to regulators a stable and repeatable process built on a foundation of complete data, up-to-date and validated models, and rigorous governance,” said Little.

Although the Federal Reserve has indicated that stress test results could be useful for “risk appetite definition, risk management and measurement, financial planning, budgeting and strategic planning as well as for limit setting and measurement,” fewer than 40% of survey participants reported using stress tests for these purposes. However, more than three quarters of the banks surveyed report that they have plans in place to upgrade their stress testing practices, potentially to address additional uses of the results.

Based on feedback from participants, Moody's Analytics anticipates that investments in data, modelling, scenario design, and infrastructure will accelerate as banks seek to deliver more efficient and consistent responses to regulators and to maximize returns on their stress testing expenditures.

For more information, visit [www.moodyanalytics.com/StressTests](http://www.moodyanalytics.com/StressTests).

#### **About Moody's Analytics**

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