

For release on delivery
7:15 p.m. EDT
April 8, 2013

Stress Testing Banks: What Have We Learned?

Remarks by

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at

“Maintaining Financial Stability: Holding a Tiger by the Tail”

a Financial Markets Conference

Sponsored by the Federal Reserve Bank of Atlanta

Stone Mountain, Georgia

April 8, 2013

Let me begin by thanking President Lockhart and the organizers of the Financial Markets Conference for inviting me to speak here again this year. I have participated regularly in this conference and have always found it stimulating.

Four years ago, in remarks at this very conference, I described the 2009 Supervisory Capital Assessment Program, or SCAP, popularly known as the bank stress tests.¹ The SCAP marked the first time the U.S. bank regulatory agencies had conducted a supervisory stress test simultaneously across the largest banking firms.² At the time of my 2009 speech, we had just published the results of the SCAP and were still evaluating its effects. In retrospect, the SCAP stands out for me as one of the critical turning points in the financial crisis. It provided anxious investors with something they craved: credible information about prospective losses at banks. Supervisors' public disclosure of the stress test results helped restore confidence in the banking system and enabled its successful recapitalization. The resilience of the U.S. banking system has greatly improved since then, and the more intensive use and greater sophistication of supervisory stress testing, as well as supervisors' increased emphasis on the effectiveness of banks' own capital planning processes, deserve some credit for that improvement.

I will begin today with a brief discussion of the state of U.S. banking. I will then turn to the subject of what we have learned about stress testing in the four years since the SCAP, with a focus on the increasingly central role it is playing in bank supervision in the United States. Importantly, as I will elaborate, stress testing adds a macroprudential

¹ See Ben S. Bernanke (2009), "The Supervisory Capital Assessment Program," speech delivered at "Financial Innovation and Crises," a financial markets conference sponsored by the Federal Reserve Bank of Atlanta, held in Jekyll Island, Ga., May 11-13, www.federalreserve.gov/newsevents/speech/bernanke20090511a.htm.

² For more information about the SCAP exercise, see the Board's website at www.federalreserve.gov/bankinfo/scap.htm.