

Federal Reserve Releases 2017 CCAR Results

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The Federal Reserve today released the results of its [2017 Comprehensive Capital Analysis and Review](#) (CCAR). For the first time since the introduction of CCAR in 2011, the Federal Reserve did not object to the capital distribution plans of any of the 34 U.S. bank holding companies (BHCs), including eight BHCs owned by foreign banking organizations, subject to the assessments, although it is requiring Capital One to resubmit a new capital plan that addresses identified qualitative weaknesses in its capital planning process by December 2017. Two BHCs—American Express and Capital One—took advantage of the opportunity to adjust their planned capital actions after receiving the Federal Reserve's preliminary estimates for their post-stress capital ratios. We are analyzing the CCAR results, along with the [Dodd-Frank Act Stress Test results](#) published last week, and will post a graphical summary in the coming days.

CCAR is the Federal Reserve's annual assessment of the capital planning processes of the largest U.S. BHCs – those with more than \$50 billion in total consolidated assets. CCAR includes a quantitative assessment under stressed conditions, which measures, over a forward-looking nine-quarter time horizon, whether the BHC would meet minimum capital requirements (without capital buffers) under a hypothetical adverse and severely adverse economic scenarios assuming the implementation of the firm's proposed capital action plan (i.e., its planned dividends, share buybacks and capital-raising actions over the nine-quarter horizon). In addition, CCAR includes for the largest BHCs a qualitative assessment of the BHC's capital planning processes and management. If the Federal Reserve objects to a BHC's capital plan on either a quantitative or (if applicable) qualitative basis, the BHC will not be permitted to distribute capital through dividends, share repurchases or other means, except as specifically approved by the Federal Reserve.

The 2017 CCAR process differed from previous years in two important ways. First, it incorporated the supplementary leverage ratio (SLR) for the first time, requiring BHCs subject to the SLR to exceed on a post-stress, post-capital action basis the 3% minimum SLR for periods in the planning horizon when the SLR will be effective, in addition to the other regulatory minimum ratios for common equity tier 1 capital (4.5%), tier 1 capital (6%), total capital (8%) and tier 1 leverage (4%). Second, while in previous years all U.S. BHCs subject to CCAR faced the possibility of a qualitative objection to their capital plans, a Federal Reserve [amendment](#) to the capital plan and stress test rules issued in early 2017 has limited the qualitative assessment to the subset of CCAR BHCs with \$250 billion or more in total consolidated assets, \$75 billion or more of total nonbank assets or \$10 billion or more in on-balance-sheet foreign exposures (large and complex BHCs), which currently comprises the 13 largest BHCs. For other BHCs subject to CCAR (large and noncomplex BHCs), the Federal Reserve will assess the qualitative aspects of these firms' capital planning processes as part of the its normal supervisory process, without the possibility of a qualitative objection, through a targeted [Horizontal Capital Review](#).

Today's release of the CCAR results comes amidst calls for significant reforms to the process and substance of the CCAR tests, which have become the binding capital constraint for many of the largest U.S. BHCs. The U.S. Treasury's recent [report on potential changes to the financial regulatory infrastructure](#) (the Treasury Report) recommends:

- moving CCAR to a two-year, rather than annual, cycle;
- eliminating the qualitative assessment as a basis for an objection to a BHC's capital distribution plans for all BHCs;
- subjecting the CCAR models, scenarios, parameters and methodologies to public notice and comment;
- increasing transparency of post-stress capital requirements;

- reassessing the assumption, under a severely adverse economic scenario, that BHCs would not change their capital distribution plans and would continue to grow their balance sheets;
- recalibrating CCAR to encourage the provision of credit to small- and medium-sized enterprises; and
- tailoring the Federal Reserve’s supervisory models to firms’ individual risk profiles.

Federal Reserve Governor Jerome Powell echoed industry concerns about CCAR transparency in his [testimony](#) last week before the Senate Banking Committee, stating that “[t]he Federal Reserve is committed to increasing the transparency of the stress testing and CCAR processes.” In the coming days, we plan to publish a visual memorandum describing the key capital, stress testing and liquidity recommendations of the Treasury Report and the initial responses of key agency personnel to those recommendations.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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