



## The Fed Revisits CCAR and Proposes CCAR Relief for Large Noncomplex Firms

One of the notable financial regulatory tools that resulted from the post-financial crisis prudential regulations is stress testing. The Board of Governors of the Federal Reserve System (the “Federal Reserve”) has the authority to conduct two forms of testing: (1) the Dodd-Frank Act Stress Test (“DFAST”), established pursuant to Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”); and (2) the Comprehensive Capital Analysis and Review (“CCAR”).

DFAST requires a covered financial institution to provide the Federal Reserve with detailed, standardized financial data in order to permit the Federal Reserve to assess whether the financial institution would be able to maintain sufficient levels of capital during an “adverse” or “severely adverse” event. Through the CCAR process the Federal Reserve can evaluate whether a financial institution’s (i) capital provides an adequate buffer for losses that would be incurred during a stress scenario; (ii) risk management and capital planning processes are sufficiently robust and well managed; and (iii) plans to pay out capital (either through dividends or share repurchases) could materially impact its ability to remain a viable financial intermediary during a stress scenario. Some trade groups and other industry representatives have questioned whether the Federal Reserve’s stress tests run counter to the Federal Reserve’s obligations under the Administrative Procedures Act (the “APA”), because stress testing relies on models and hypothetical scenarios that are not subject to notice-and-comment rulemaking.<sup>1</sup>

On September 26, 2016, Federal Reserve Governor Daniel K. Tarullo addressed the results of an extensive review of the CCAR Program (the “CCAR Review”), which was conducted following the end of the 2015 fiscal year cycle.<sup>2</sup> Governor Tarullo’s remarks provide some insight regarding possible future modifications to the stress testing process. On the same day, the Federal Reserve invited comment on a notice of proposed rulemaking to revise the capital plan and stress test rules for bank holding companies (“BHCs”) with greater than \$50 billion but less than \$250 billion in total consolidated assets and with limited nonbank assets, and U.S. intermediate holding companies of foreign banks (the “New CCAR Proposal”).<sup>3</sup> As discussed in greater detail below, certain “large,” “noncomplex” financial institutions would, among other things, no longer be subject to the provisions of the Federal Reserve’s capital plan rule whereby the Federal Reserve may object to a capital plan based on deficiencies in the firm’s capital planning process. Governor Tarullo’s remarks and the New CCAR Proposal together represent a noteworthy deviation from the current stress testing framework under Rule 165 of the Dodd-Frank Act and an attempt by the Federal Reserve to address some of the concerns raised by the financial industry.

<sup>1</sup> See Testimony of Hal S. Scott Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, June 7, 2016, at 12-13, available at <http://www.banking.senate.gov/public/cache/files/a7fc219d-7aab-47e0-a528-e041b48bf10a/C1C33EEEC64931BEE4E5C6E57060E61F.060716-scott-testimony.pdf>.

<sup>2</sup> See Remarks of Daniel K. Tarullo, Governor of the Board of Governors of the Federal Reserve System, “Next Steps in the Evolution of Stress Testing,” Yale University School of Management Leaders Forum, Sept. 26, 2016, available at <http://www.federalreserve.gov/newsevents/speech/tarullo20160926a.pdf>.

<sup>3</sup> See Board of Governors of the Federal Reserve System, Amendments to the Capital Plan and Stress Test Rules, Sept. 26, 2016, available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20160926a1.pdf>.

This client alert provides an overview of potential modifications to CCAR. Part I summarizes the findings of the CCAR Review. Part II provides an overview of the New CCAR Proposal and its impact on the current stress test framework. Part III provides a consolidated chart, which summarizes the potential changes that could impact stress testing moving forward based both on Governor Tarullo's speech and the New CCAR Proposal.

## **I. CCAR Review**

Governor Tarullo noted that the DFAST and CCAR Programs have "made substantial contributions to protecting the safety and soundness of the nation's largest financial firms"; however, he acknowledged that any successful stress testing regime must be dynamic. The Federal Reserve conducted a review of the CCAR Program, including meeting with bank officials, debt and equity-side market analysts, public interest groups and academics, in order to identify key areas for areas for improvement moving forward.

As discussed in greater detail below, the CCAR Review focuses on the following key overarching topics: (1) the need to more effectively align CCAR with the changes made to the Federal Reserve's capital rules over the past six years; (2) the macroprudential dimension of DFAST and CCAR, and the need to consider the indirect risks that may impact a financial institution's capital in a stress scenario; and (3) the nature of the qualitative assessment as applied to the relatively smaller, less complex firms within the CCAR exercise.

### **Better Alignment of CCAR With Regulatory Capital Rules**

Governor Tarullo noted that the CCAR Review demonstrates that CCAR needs to be better aligned with the regulatory capital rules promulgated by the Federal Reserve. Although some regulatory capital requirements have been integrated into the stress testing program, others have not, such as the capital conservation buffer ("CCB"); (ii) G-SIB surcharge; and (iii) the countercyclical buffer.

1. ***Alignment with the CCB.*** The Federal Reserve will consider adoption of a "stress capital buffer" ("SCB") approach to better align CCAR with the regulatory capital rules. The SCB would replace the existing 2.5% CCB as a component in each CCAR firm's point-in-time capital requirements. Moreover, the SCB would be risk-sensitive and vary across firms based on annual stress test results. The SCB would equal the maximum decline in a firm's common equity tier 1 capital ratio ("CET 1") under the "severely adverse" scenario of the supervisory stress test before the inclusion of the firm's planned distributions. This differs from the current practice of calculating a firm's capital position separately for each quarter in the "scenario horizon." To avoid any potential reduction in the stringency of the regulatory capital rules, the Federal Reserve would specify a floor at the current CCB level for purposes of stress testing.
2. ***Reflecting the G-SIB Surcharge in Stress Testing.*** The Federal Reserve would add the G-SIB capital surcharge to the Federal Reserve's estimates of the amount of capital needed for G-SIBs under stress. Governor Tarullo addressed the arguments made by industry representatives who have asserted that the G-SIB surcharge should not be incorporated into stress testing.
3. ***Changes to the Treatment of Planned Dividends and Share Repurchases.*** Governor Tarullo stated that the shift to an SCB approach would offer a feasible mechanism for addressing two issues related to capital distribution limitations under CCAR: (i) inconsistencies between (a) the existing CCAR assumption that all planned dividends and share repurchases would proceed during the two-year planning horizon (irrespective of how much stress a financial institution was under) and (b) the concept of a CCB above minimum capital requirements, as currently contemplated under the Federal Reserve's capital rules; and (ii) a soft limitation on dividends put in place by the Federal Reserve at the inception of CCAR.

The underlying CCAR assumptions and capital conversation buffer above minimum capital requirements would be addressed through the implementation of the SCB approach. The SCB approach would provide a continuous constraint on any planned distributions and bring capital levels below the sum of the minimum 4.5% of risk-weighted assets ("RWAs") plus the firm-specific SCB (plus any applicable surcharge).

The SCB approach would also address the soft limits on dividends in the CCAR Program. The Federal Reserve’s policy statement on CCAR states that capital plans with a planned dividends payout ratio above 30% would receive particularly close regulatory scrutiny. However, given the approach of adding one year’s planned dividends to a firm’s capital buffer should disincentive “imprudent or unsustainable levels of dividends,” Governor Tarullo stated that such extra scrutiny on planned dividends may no longer be helpful.

4. ***Balance Sheet and Risk-Weighted Asset Assumptions.*** One of the main aims of stress testing is to ensure that large financial institutions can provide credit to households and businesses that remain creditworthy during a period of financial distress. During the 2014 CCAR cycle, the Federal Reserve began to use its own model to determine where financial institutions planned to see balance sheet declines. This model has projected an increase in the balance sheets of CCAR financial institutions during the “severe adverse” scenario, with differing impacts on different portfolios. However, several financial institutions have attempted to show why some of these portfolios or business lines would not be increasing under any reasonable assumptions—consequently, these financial institutions proposed during the CCAR Review ways to distinguish between business lines so to relax unrealistic assumptions. According to Governor Tarullo, the Federal Reserve will consider replacing the feature of its stress test model that tries to differentiate across idiosyncratic business lines with a simple assumption that balance sheets and RWAs remain constant over the “severely adverse” scenario horizon.

### **Creating a More Macroprudential Regime**

Governor Tarullo noted that the major objective in the Federal Reserve’s CCAR Review was to determine ways to integrate more macroprudential elements into the CCAR Program. In addition to incorporating the G-SIB surcharge (as discussed previously), the Federal Reserve is also considering making revisions to the Federal Reserve’s “Policy Statement on the Scenario Design Framework for Stress Testing” (the “Policy Statement”) to reduce procyclicality. The Policy Statement would be revised to: (i) make the severity of the change in the unemployment rate less severe during economic downturns; and (ii) replace the current judgmental approach to setting the hypothesized path of house prices by tying such a variable to disposable personal income.

Governor Tarullo additionally listed three specific high-priority areas that the Federal Reserve will focus on in relation to incorporating macroprudential standards into stress testing in the medium term: (1) funding shocks; (2) liquidity shocks; and (3) spillovers from the default of common counterparties.

1. ***Funding Shocks.*** Governor Tarullo stated that the Federal Reserve will consider whether (and how) to integrate direct and systemic funding shocks into the Federal Reserve’s main stress testing framework. A direct funding shock scenario is one in which a bank incurs losses, its capital base erodes and some of the bank’s creditors begin to demand additional compensation, resulting in an increase in funding costs. During a systemic funding shock, each financial institution’s cost of funds relies on the capital position of the system as a whole. As the banking system experiences capital losses, the cost of funding will increase (as it did during the financial crisis of 2008), and some wholesale funding markets may shut down even for relatively healthy banks.
2. ***Liquidity Shocks and Fire Sale Dynamics.*** During the financial crisis, distressed firms were forced to rapidly sell large amounts of securities to make up funding shortfalls. The fire sale price discounts that were necessary to complete these hurried sales resulted in mark-to-market losses on other firms with similar holdings. Accordingly, the Federal Reserve will seek to better understand ways to reflect this “financial contagion” in its stress testing framework, including conducting additional research to better understand the ability of markets to handle large quantities of asset sales under stress and the capacity and willingness of firms to tap their buffers of high-quality assets.
3. ***Default of a Common Counterparty and the Reaction of Central Counterparties.*** While the annual stress test incorporates a counterparty default scenario component for the eight G-SIBs that

measures direct credit losses, such a component, in the eyes of Governor Tarullo, does not consider the potentially large second-round effects of the default of a major financial institution. Accordingly, the Federal Reserve has a particular interest in the role of central counterparties in alleviating or transmitting stress from the default of one of their members. In consideration of this role, it is critical to understand the impact that central counterparties may have during stressed conditions.

### **Enhancing Transparency of the CCAR Program**

Next, Governor Tarullo emphasized the Federal Reserve's focus on creating greater transparency of the stress test program, including with regard to: (i) the set of scenarios applied in the annual stress test exercise; (ii) the set of results of the DFAST and CCAR exercises themselves; and (iii) the supervisory models used in the stress tests.

1. ***Scenarios Applied in the Annual Exercise.*** Governor Tarullo noted that the Federal Reserve has previously released all details of the scenarios used for the stress test and has also published a policy statement exploring the aims and factors relevant to the development of such scenarios.
2. ***Results of the DFAST and CCAR Exercises.*** Starting with the Supervisory Capital Assessment Program in 2009, the Federal Reserve has adopted the practice of publishing the results of stress tests for financial firms. Such information currently disclosed includes a summary of the reasons for any qualitative objection or conditional non-objection to a firm's capital plans. However, the Federal Reserve will consider making more granular disclosures, including providing enhanced information on different components of projects' net revenues, over the next two cycles of stress testing.
3. ***Disclosure of Supervisory Models Used in Stress Testing.*** The Federal Reserve has, and will continue to, publish descriptions of all models used in the stress test (including key risk drivers and scenario variables for each key modeling area). The Federal Reserve will consider further steps, such as disclosing descriptions of changes prior to the stress test and phasing in the most material model changes over two years in order to minimize the potential impact on projected losses or revenues. The Federal Reserve will also assess the feasibility of publishing data that represent typical bank portfolios of loans and securities with the losses it would project for those portfolios under various stress scenarios.

Governor Tarullo explicitly noted that the Federal Reserve does not, at this point in time, intend to publish the full computer code in the supervisory model that is used to project revenues and losses, as such disclosure would "permit firms to game the system." However, the Federal Reserve is considering whether there should be limited opportunities for external parties to assess the models. The Federal Reserve has established the Model Validation Group, which is comprised of independent modelling experts, to make regular assessments and provide suggestions for improvements to the stress test models.

### **Easing Regulatory Burden on Smaller, Less Complex CCAR Firms**

Last, Governor Tarullo explained the need to ease the regulatory burden imposed on smaller, less complex firms currently subject to CCAR. As discussed in greater detail in Part II below, the Federal Reserve's New CCAR Proposal would exempt financial institutions with less than \$250 billion in assets from the annual CCAR qualitative review as long as the financial institution does not have significant international or nonbank activity. The New CCAR Proposal would: (i) reduce the intensity of the supervision of the capital planning processes for smaller, less complex firms; (ii) remove any uncertainty as to supervisory expectations for these firms; and (iii) eliminate the possibility of a public objection to their capital plans on qualitative grounds. The New CCAR Proposal could be made effective as early as next year (i.e., for the 2017 CCAR cycle).

## **II. The New CCAR Proposal**

In addition to the changes contemplated in Governor Tarullo's speech, the New CCAR Proposal would revise the standards that the Federal Reserve uses to review capital plans for BHCs with: (i) total consolidated assets of at least \$50 billion but less than \$250 billion; (ii) on-balance sheet foreign exposure of less than \$10 billion; and (iii)

nonbank assets of less than \$75 billion (each, a “Large Noncomplex Firm”). A Large Noncomplex Firm would no longer be subject to the provisions of the Federal Reserve’s capital plan rules. Large Noncomplex Firms would no longer be subject to the qualitative assessment in CCAR; however, such firms would remain subject to a quantitative assessment under CCAR. The New CCAR Proposal would also modify reporting requirements for Large Noncomplex Firms by raising materiality thresholds, reducing the scope of the data collection on these firms’ stress test results and reducing supporting documentation requests.

### **Identification of Large Noncomplex Firms**

Under the New CCAR Proposal, a BHC would be deemed a Large Noncomplex Firm if it maintained, as of December 31 of the calendar year prior to the capital cycle: (i) an average total consolidated assets of \$50 billion or greater but less than \$250 billion; (ii) total on-balance sheet foreign exposure of less than \$10 billion; and (iii) average total nonbank assets of less than \$75 billion.

### **Measurement and Reporting of Average Total Nonbank Assets for CCAR 2017 and Subsequent Stress Testing**

1. **Calculating Average Nonbank Assets for CCAR 2017.** To determine whether a firm satisfies the \$75 billion average total nonbank asset threshold specifically for CCAR 2017, the average total nonbank assets under the New CCAR Proposal would equal:
  - a. total combined nonbank assets of nonbank subsidiaries, as provided on line 15a of Schedule PC-B of the *Parent Company Only Financial Statements for Large Holding Companies* (FR Y-9LP) as of December 31, 2016; *plus*
  - b. the total amount of equity investment in nonbank subsidiaries and associated companies as reported on line 2a of Schedule PC-A of the FR Y-9LP as of December 31, 2016; *plus*
  - c. assets of each Edge and Agreement Corporation, as reported on the *Consolidated Report of Condition and Income for Edge Agreement Corporations* (FR 2886b) as of December 31, 2016 (to the extent such corporation is designed as “nonbanking” on the front page of the FR 2886b); *minus*
  - d. assets of each federal savings association, federal savings bank or thrift subsidiary, as reported on the firm’s Call Report as of December 31, 2016.
2. **Calculating Average Nonbank Assets for After CCAR 2017.** To determine whether a firm satisfies the \$75 billion average total nonbank asset threshold for cycles after CCAR 2017, the average total nonbank assets under the New CCAR Proposal would equal:
  - a. the average of total nonbank assets of the BHC, calculated in accordance with the instructions to the FR Y-9LP, for the most recent consecutive quarters; *or*
  - b. if the BHC has not filed the FR Y-9LP for each of the four most recent consecutive quarters, the average of total nonbank assets of the BHC for the most recent quarter or consecutive quarters (as applicable).
3. **Amendments to FR Y-9LP.** The New CCAR Proposal would also amend FR Y-9LP to include a new line item (*Item 17*) of PC-B Memoranda for purposes of identifying a Large Noncomplex Firm. A BHC with total consolidated assets of at least \$50 billion would be required to report on the FR Y-9LP:
  - a. the average dollar amount of its total nonbank assets of consolidated nonbank subsidiaries;
  - b. whether the assets are held directly or indirectly or held through lower-tier holding companies; *and*

- c. its direct investments in unconsolidated nonbank subsidiaries, associated nonbank companies and nonbank corporate joint ventures over which the BHC exercises significant influence (“Nonbank Companies”).

### **Elimination of CCAR Qualitative Assessment and Objection for Large Noncomplex Firms**

Under the Federal Reserve’s current capital plan rules, the Federal Reserve may object to a BHC’s capital plan using both qualitative and quantitative criteria. As described below, the New CCAR Proposal would eliminate the Federal Reserve’s qualitative assessment and objection for Large Noncomplex Firms, while maintaining the Federal Reserve’s ability to object based on quantitative criteria.

1. ***Elimination of CCAR Qualitative Assessment.*** The New CCAR Proposal would alter the way the Federal Reserve conducts its supervisory assessment of Large Noncomplex Firms. Specifically, the Federal Reserve’s evaluation of a Large Noncomplex Firm’s risk-management and capital planning practices would be conducted through the regular supervisory process and targeted, horizontal assessments of particular aspects of capital planning, as opposed to through the intensive qualitative criteria.<sup>4</sup> Additionally, the Federal Reserve would no longer object to the capital plans of Large Noncomplex Firms pursuant to qualitative deficiencies in their capital planning process; instead, the Federal Reserve would incorporate an assessment of these practices into regular, ongoing supervision. Under the New CCAR Proposal, each Large Noncomplex Firm would receive a supervisory communication outlining the scope of the year’s review (which would likely occur in the quarter following the CCAR qualitative assessment for LISCC Firms<sup>5</sup> and Large Complex Firms<sup>6</sup>).
2. ***Large Noncomplex Firms Still Subject to Quantitative Assessment.*** Pursuant to the Federal Reserve’s quantitative criteria, the Federal Reserve may still object to a BHC’s capital plan if the BHC has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon.<sup>7</sup> Pursuant to the New CCAR Proposal, the Federal Reserve would continue to perform this annual quantitative assessment of capital plans of Large Noncomplex Firms and make a public announcement regarding whether it has approved or objected to the firm’s capital plan on this basis.

### **Continued Application of CCAR for LISCC Firms and Large Complex Firms**

The New CCAR Proposal would not amend the application of CCAR’s qualitative assessment for LISCC firms and Large Complex Firms. However, the New CCAR Proposal contains a modification to the capital plan rules’ qualitative objection criteria for LISCC Firms and Large Complex Firms. Under the New CCAR Proposal, the Federal Reserve may object to a capital plan of an LISCC Firm or Large Complex Firm if, among other factors, the methodologies and practices that support the BHC’s capital planning process are not reasonable or appropriate.

### **Modification of Reporting Requirements**

As part of the stress testing framework, BHCs must submit to the Federal Reserve the FR Y-14 series of reports, which consists of the: (i) semi-annual FR Y-14A; (ii) quarterly FR Y-14Q; and (iii) monthly FR Y-14M. The New CCAR Proposal would increase the materiality thresholds for filing schedules on the FR Y-14Q report and the FR Y-14M report for Large Noncomplex Firms, reduce the supporting documentation required to be submitted in connection with a Large Noncomplex Firm’s capital plan and reduce the information that must be provided in connection with the FR Y-14A.

<sup>4</sup> The Federal Reserve may currently object to a capital plan pursuant to its qualitative criteria if it determines that: (i) the BHC has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process; (ii) the assumptions and analysis underlying the BHC’s capital plan, or the BHC’s methodologies for reviewing its capital adequacy processes, are not reasonable or appropriate; or (iii) the BHC’s capital planning process or proposed capital distributions would otherwise constitute an unsafe or unsound practice, or would violate any law, regulation, Federal Reserve order, directive or condition imposed by (or written agreement with) the Federal Reserve or the appropriate Federal Reserve Bank.

<sup>5</sup> Firms subject to the Large Institution Supervision Coordinating Committee supervisory framework (“LISCC Firms”).

<sup>6</sup> Firms with (a) \$250 billion or more in total consolidated assets or (b) \$10 billion or more in foreign exposures (together, “Large Complex Firms”).

<sup>7</sup> See 12 C.F.R. § 225.8(f)(2)(ii)(C).

1. **Increased Materiality Threshold for FR Y-14Q and FR Y-14M Reports.** Under the New CCAR Proposal, the materiality threshold for filing schedules on FR Y-14Q and FR Y-14M reports for Large Noncomplex Firms would increase. The FR Y-14 instructions currently define “material portfolios” as those with asset balances greater than \$5 billion or asset balances greater than 5% of tier 1 capital on average for the four quarters preceding the reporting quarter. However, the New CCAR Proposal would revise the definition of “material portfolio” for Large Noncomplex Firms to a portfolio with asset balances greater than either: (i) \$5 billion; or (ii) 10% of tier 1 capital (both measured as an average for the four quarters preceding the reporting quarter).
2. **Reductions in Supporting Documentation Required in Connection with Capital Plan.** The New CCAR Proposal would reduce the supporting documentation that a Large Noncomplex Firm would be required to submit with its capital plan. Specifically, the New CCAR Proposal would revise Appendix A to FR Y-14A to remove the requirement that a Large Noncomplex Firm include in its capital plan submission certain documentation regarding its: (i) models, including any model inventory mapping document; (ii) methodology documentation; (iii) model technical documents; and (iv) model validation documentation. However, Large Noncomplex Firms would still be expected to be able to produce such documentation upon request by the Federal Reserve.
3. **Removal of Requirement to Complete Certain Sections of FR Y-14A Schedule A.** Pursuant to the New CCAR Proposal, Large Noncomplex Firms would no longer be required to complete several portions of the FR Y-14A Schedule A, including the: (i) Securities Other-Than-Temporary Impairment (“OTTI”) methodology sub-schedule; (ii) Securities Market Value source sub-schedule; (iii) Securities OTTI by security sub-schedule; (iv) Retail repurchase sub-schedule; (v) Trading sub-schedule; (vi) Counterparty sub-schedule; and (vii) Advanced RWA sub-schedule.

### **Simplification of the Initial Application of Capital Plan, Stress Test Rules and Regulatory Reporting Requirements**

For BHCs with greater than \$50 billion in total consolidated assets, the New CCAR Proposal would simplify initial applicability provisions for the capital plan and stress test rules (i.e., subparts E and F of Regulation YY), as well as provide additional time before those requirements apply to BHCs that cross the \$50 billion threshold near the April 5<sup>th</sup> capital plan submission and stress test date.

1. **Capital Plan Submission Date.** Any BHC that crosses the \$50 billion asset threshold on or before December 31<sup>st</sup> of a calendar year must, under the current capital plan rules, submit a capital plan by April 5<sup>th</sup> of the following year. However, the New CCAR Proposal would move the cutoff date for the capital plan submission to September 30<sup>th</sup>. A firm that crosses the \$50 billion asset threshold in the fourth quarter of a calendar year would, therefore, not have to submit a capital plan until April 5<sup>th</sup> of the second year after it has crossed the threshold.
2. **Initial Stress Test Date.** Under the current stress test rules, a BHC that crosses the \$50 billion asset threshold before March 31<sup>st</sup> of a given year would be subject to the stress test rules under subparts E and F of Regulation YY beginning in the following year. The New CCAR Proposal would align the cutoff date for initial application of the stress test rules in subparts E and F of Regulation YY with that of the capital plan rules so that a BHC would become subject to the stress test rules in subparts E and F in the year following the first year in which the BHC submitted a capital plan. Accordingly, a firm would have at least a year before it would be subjected to its initial stress test under subparts E and F. This proposed change would provide a more orderly onboarding process for new FR Y-14 filers, as well as simplify the application of the capital plan and stress test rules.
3. **Extended Onboarding Period for Regulatory Reporting.** Currently, a BHC that crosses the \$50 billion asset threshold must prepare FR Y-14M reports as of the end of the month in which it crossed the threshold. The BHC’s first FR Y-14M must be submitted within 90 days after the end of the month.

However, the New CCAR Proposal would extend the onboarding period of regulatory reporting requirements, requiring a BHC to (i) begin preparing its initial FR Y-14M as of the end of the third month after the BHC first crossed the \$50 billion asset threshold (as opposed to as of the month in which the BHC crosses the threshold) and (ii) submit its first FR Y-14M within 90 days after the end of the month. The extended onboarding period would enable BHCs to more easily comply with their FR Y-14 reporting obligations when they take effect and, consequently, alleviate the burden for reporting BHCs.

### **Lowering of the *De Minimis* Exception Threshold for All BHCs**

Under the current capital plan rules, a BHC must request prior approval for a capital distribution that has not explicitly been approved by the Federal Reserve. However, the *de minimis* exception under the capital plan rules provides a BHC that has received a notice of non-objection to its capital plan with the ability to make a capital distribution that exceeds the amount described in its capital plan if: (i) the BHC remains well capitalized after the distribution;<sup>8</sup> (ii) the BHC's performance and capital levels following the distribution are consistent with the BHC's projections under the expected conditions in the BHC's capital plan; (iii) the BHC provides 15 days' notice prior to execution and the Federal Reserve does not object within that time period; and (iv) the aggregate dollar amount of all capital distributions during the capital planning cycle would not exceed the total amount described in the BHC's capital plan by more than 1.00% of the BHC's tier 1 capital (as reported in the BHC's first quarter FR Y-9C).<sup>9</sup>

The New CCAR Proposal would decrease the aggregate dollar amount threshold from 1.00% to 0.25% of a BHC's tier 1 capital to ensure that a *de minimis* distribution would represent a smaller percentage of the BHC's approved capital distributions and tier 1 capital. BHCs would still also be able to seek approval to make capital distributions not previously included in their capital plans pursuant to Section 225.8(g) of the capital plan rules.

### **Establishment of a *De Minimis* Exception Blackout Period**

The New CCAR Proposal would create a "blackout period" for one-quarter while the Federal Reserve is conducting CCAR (i.e., the second quarter of a calendar year). The proposed blackout periods are expected to become effective for CCAR 2017. During the blackout period, a BHC would not be able to submit a notice to use the *de minimis* exception or submit a request for prior approval for additional capital distributions that do not qualify for the *de minimis* exception. A BHC seeking to make capital distributions in the second quarter (when the CCAR exercise is already underway) in excess of the amount described in its capital plan (for which a non-objection was issued pursuant to the *de minimis* exception or prior approval process) would be required to: (i) submit a notice to use the *de minimis* exception by March 15<sup>th</sup>; or (ii) submit a request for prior approval for incremental capital distributions that do not qualify for the *de minimis* exception by March 1<sup>st</sup> and reflect the additional distributions in its capital plan.

### **Revisions to the Time Period for the Market Shock "As-Of" Date**

Under the current stress test rules, the Federal Reserve may require a BHC with significant trading activity to include a trading and counterparty component ("Global Market Shock") in its "adverse" and "severely adverse" scenarios for its company-run stress tests. While the Federal Reserve must currently select a date between January 1<sup>st</sup> and March 1<sup>st</sup> of the calendar year of the stress test cycle, the New CCAR Proposal would, for the 2018 stress test cycle, enable the Federal Reserve to select any date between October 1<sup>st</sup> of the prior year and March 1<sup>st</sup> of the year of the stress test cycle for the as-of date of the Global Market Shock.

<sup>8</sup> See 12 C.F.R. § 225.2(r).

<sup>9</sup> See 12 C.F.R. § 225.8(g)(2).



III. SUMMARY CHART

Summary of Potential Changes to the CCAR Program		
Proposed Change to CCAR	Effect of Change	Anticipated Implementation
<b>Remarks of Governor Tarullo Made on September 26, 2016</b>		
Adoption of Stress Capital Buffer Approach	<ul style="list-style-type: none"> <li>The Stress Capital Buffer approach would:                             <ul style="list-style-type: none"> <li>better align CCAR with the regulatory capital rules as currently implemented;</li> <li>replace the existing 2.5% capital conservation buffer as a component in each CCAR firm’s point-in-time capital requirements; and</li> <li>provide a continuous constraint on any planned distributions and bring capital levels below the sum of the minimum 4.5% of RWAs plus the firm-specific Stress Capital Buffer (plus any applicable surcharge).</li> </ul> </li> </ul>	Post-CCAR 2017
Incorporate G-SIB Surcharge into CCAR	<ul style="list-style-type: none"> <li>The Federal Reserve would further add the G-SIB capital surcharge to the Federal Reserve’s estimates of the amount of capital needed for G-SIBs under stress.</li> </ul>	Post-CCAR 2017
Implement Assumption that Balance Sheets and RWAs Remain Constant	<ul style="list-style-type: none"> <li>The Federal Reserve will consider replacing the feature of its stress test model that tries to differentiate across idiosyncratic business lines with a simple assumption that balance sheets and RWAs remain constant over the “severely adverse” scenario horizon.</li> </ul>	Post-CCAR 2017
Revise Policy Statement to Reduce Procyclicality	<ul style="list-style-type: none"> <li>The Federal Reserve would revise its “Policy Statement on the Scenario Design Framework for Stress Testing” to:                             <ul style="list-style-type: none"> <li>make the severity of the change in the unemployment rate less severe during economic downturns; and</li> <li>replace the current judgmental approach to setting the hypothesized path of house prices by tying such a variable to disposable personal income.</li> </ul> </li> </ul>	Current/Post-CCAR 2017
Integrate Funding Shocks	<ul style="list-style-type: none"> <li>The Federal Reserve will:                             <ul style="list-style-type: none"> <li>consider whether, and how, to integrate direct and systemic funding shocks into the Federal Reserve’s main stress testing framework; and</li> <li>conduct additional research to better understand the ability of markets to handle large quantities of asset sales under stress and the capacity and willingness of firms to tape their buffers of high-quality assets.</li> </ul> </li> </ul>	Current/Post-CCAR 2017
Understand Role of Central Counterparties	<ul style="list-style-type: none"> <li>Develop a greater understanding of the impact that central counterparties may have during stressed conditions.</li> </ul>	Current/Post-CCAR 2017
Create Greater Transparency	<ul style="list-style-type: none"> <li>Continue to release all details of the scenarios used for the stress test.</li> <li>Disclose the results of stress tests; continue making more granular disclosures, including providing enhanced information on different components of projects net revenues.</li> <li>Continue to publish descriptions of all models used in the stress test.</li> <li>Consider further steps, including disclosing descriptions of changes prior to the stress test and phasing in the most material model changes in order to minimize the potential impact on projected losses or revenues.</li> <li>Assess the feasibility of publishing data that represent typical bank portfolios and loans and securities with the losses it would project for those portfolios under various stress scenarios.</li> </ul>	Current/Post-CCAR 2017

Summary of Potential Changes to the CCAR Program

Proposed Change to CCAR	Effect of Change	Anticipated Implementation
<b>New CCAR Proposal</b>		
Create a New Category of “Large Noncomplex Firms” Exempt from Certain Aspects of CCAR	<ul style="list-style-type: none"> <li>• A BHC would be deemed to be a “Large Noncomplex Firm” if, as of December 31<sup>st</sup> of the calendar year prior to the capital cycle, it had:               <ul style="list-style-type: none"> <li>○ an average total consolidated assets of \$50 billion or greater but less than \$250 billion;</li> <li>○ total on-balance sheet foreign exposure of less than \$10 billion; and</li> <li>○ average total nonbank assets of less than \$75 billion.</li> </ul> </li> </ul>	2017 CCAR
Eliminate CCAR Qualitative Assessment for Large Noncomplex Firms	<ul style="list-style-type: none"> <li>• The Federal Reserve’s evaluation of a Large Noncomplex Firm’s risk-management and capital planning practices would be conducted through the regular supervisory process and targeted, horizontal assessments of particular aspects of capital planning.</li> <li>• The Federal Reserve would no longer object to the capital plans of Large Noncomplex Firms pursuant to qualitative deficiencies in their capital planning process; instead, the Federal Reserve would incorporate an assessment of these practices into regular, ongoing supervision.</li> </ul>	
Increased Materiality Threshold for FR Y-14Q and FR Y-14M Reports for Large Noncomplex Firms	<ul style="list-style-type: none"> <li>• The materiality threshold for filing schedules on FR Y-14Q and FR Y-14M reports for Large Noncomplex Firms would be increased.</li> <li>• Revise the definition of “material portfolio” in the instructions of FR Y-14 for Large Noncomplex Firms to a portfolio with asset balances greater than either: (i) \$5 billion; or (ii) 10% of tier 1 capital, both measured as an average for the four quarters preceding the reporting quarter.</li> </ul>	
Reduce Supporting Documentation Required in Connection with Capital Plan	<ul style="list-style-type: none"> <li>• Would revise Appendix A to FR Y-14A to remove the requirement that a Large Noncomplex Firm include in its capital plan submission certain documentation regarding its:               <ul style="list-style-type: none"> <li>○ models, including any model inventory mapping document;</li> <li>○ methodology documentation;</li> <li>○ model technical documents; and</li> <li>○ model validation documentation.</li> </ul> </li> </ul>	
Remove Requirement to Complete Certain Sections of FR Y-14A Schedule A	<ul style="list-style-type: none"> <li>• Large Noncomplex Firms would no longer be required to complete several portions of the FR Y-14A Schedule A, including the:               <ul style="list-style-type: none"> <li>○ Securities OTTI methodology sub-schedule;</li> <li>○ Securities Market Value source sub-schedule;</li> <li>○ Securities OTTI by security sub-schedule;</li> <li>○ Retail repurchase sub-schedule;</li> <li>○ Trading sub-schedule;</li> <li>○ Counterparty sub-schedule; and</li> <li>○ Advanced RWA sub-schedule.</li> </ul> </li> </ul>	
Simplify Initial Application of Capital Plan	<ul style="list-style-type: none"> <li>• Would move the cutoff date for the capital plan submission to September 30<sup>th</sup>.</li> <li>• A firm that crosses the \$50 billion asset threshold in the fourth quarter of a calendar year would, therefore, not have to submit a capital plan until April 5<sup>th</sup> of the second year after it has crossed the threshold.</li> </ul>	
Simplify Stress Test Rules	<ul style="list-style-type: none"> <li>• Would align the cutoff date for initial application of the stress test rules in subparts E and F under Regulation YY with that of the capital plan rule—a BHC would become subject to subparts E and F in the year following the first year in which the BHC submitted a capital plan.</li> </ul>	

Summary of Potential Changes to the CCAR Program

Proposed Change to CCAR	Effect of Change	Anticipated Implementation
<b>New CCAR Proposal, cont'd.</b>		
Extend Onboarding Period for Regulatory Reporting	<ul style="list-style-type: none"> <li>• Would extend the onboarding period of regulatory reporting requirements, requiring a BHC to:                             <ul style="list-style-type: none"> <li>○ begin preparing its initial FR Y-14M as of the end of the third month after the BHC first crosses the \$50 billion asset threshold (as opposed to as of the month in which the BHC crosses the threshold); and</li> <li>○ submit its first FR Y-14M within 90 days after the end of the month (data for the three intervening months would be due at that time).</li> </ul> </li> </ul>	2017 CCAR
Lower <i>De Minimis</i> Exception Threshold for all BHCs	<ul style="list-style-type: none"> <li>• Would decrease the aggregate dollar amount threshold from 1.00% to 0.25% of a BHC's tier 1 capital to ensure that a <i>de minimis</i> distribution would represent a smaller percentage of the BHC's approved capital distributions and tier 1 capital.</li> </ul>	
Establish a <i>De Minimis</i> "Blackout Period"	<ul style="list-style-type: none"> <li>• Would create a "blackout period" for one-quarter while the Federal Reserve is conducting CCAR (i.e., the second quarter of a calendar year).</li> <li>• A BHC would not be able to submit a notice to use the <i>de minimis</i> exception or submit a request for prior approval for additional capital distributions that do not qualify for the <i>de minimis</i> exception.</li> </ul>	
Revise the Time Period for Market Shock "As-Of" Date	<ul style="list-style-type: none"> <li>• Would enable the Federal Reserve to select any date between October 1 of the prior year and March 1 of the year of the stress test cycle for the as-of date of the Global Market Shock.</li> </ul>	2018 CCAR

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