BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

February 3, 2017

Subject: Qualitative Assessment of Capital Plans for U.S. Intermediate Holding Companies of Foreign Banking Organizations (IHCs)

Dear Sir or Madam,

Your IHC is required to submit a capital plan to the Federal Reserve for the first time in 2017.[1] The Federal Reserve will conduct an assessment of the capital plans of the IHCs that are newly subject to the capital plan rule in 2017 (*new* IHCs). The Board of Governors of the Federal Reserve System ("Board") will determine whether to object or not object to a *new* IHC's capital plan based on this assessment and the criteria in the capital plan rule.[2] As has been the case in past years for firms that are subject to the Board's capital plan rule for the first time, the Board does not plan to publish its decision regarding the capital plans of *new* IHCs, nor will *new* IHCs be required to disclose the results of their stress tests in 2017. Additionally, the *new* IHCs will not be subject to the quantitative assessment in the Dodd-Frank Act Stress Test program (DFAST) or the Comprehensive Capital Analysis and Review (CCAR) in 2017.

Each *new* IHC must submit to the Federal Reserve its capital plan and supporting materials, including estimates of the IHC's losses and revenue under its own baseline and stress scenario and the supervisory scenarios provided by the Board no later than April 5, 2017.[3] The Federal Reserve expects each *new* IHC to design its own stress scenario that reflects the IHC's unique risk and to consider the results under such a scenario in its capital plan.[4]

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[1] This communication applies only to Barclays US LLC; Credit Suisse Holdings (USA), Inc.; RBC USA Holdco Corporation; and UBS Americas Holding LLC.

[2] 12 CFR 225.8(f).

[3] 12 CFR 225.8(e); 12 CFR 252.153(e)(2)(ii); see also 79 Fed. Reg. 64026 (October 27, 2014). A firm may use the same baseline scenario as the supervisory baseline scenario if the firm determines the supervisory baseline scenario appropriately represents its view of the most likely outlook for the risk factors salient to the firm. All CCAR-related documentation, inclusive of follow-up requests and resubmission of materials, must be submitted via the secured IntraLinks collaboration site and not via email attachments to ensure the secure transmission of your documents and to maintain appropriate records of the submission.

[4] See 12 CFR 225.8(e)(2)(i)(A).

Under the capital plan rule, the capital plan must include a detailed description of the *new* IHC's internal processes for assessing capital adequacy; the board of directors' approved policies governing capital actions; and the *new* IHC's planned capital actions over a nine-quarter planning horizon.[5] The capital plan must be approved by the *new* IHC's board of directors, or a committee thereof, before the capital plan is submitted to the Federal Reserve.[6] Further, *new* IHCs must submit supporting information that is necessary to facilitate the review of a capital plan under the Board's capital plan rule and in accordance with the FR Y-14 instructions.[7]

The Federal Reserve's assessment of capital plans will include consideration of each *new* IHC's capital planning processes and supporting practices, as well as the other factors described in the Board's rules.[8] In 2017, the Federal Reserve's assessment will focus on the strength of a new IHC's practices in areas that are foundational to sound capital planning, including governance, internal controls, and risk identification that support the firm's capital planning process and methods used to estimate losses and revenues for material exposures.[9]

The qualitative assessment of capital plans will be informed by supervisory activities conducted throughout the year to assess the practices and processes employed by the *new* IHCs. These supervisory activities include reviews that focus on risk management, internal controls, audit, and governance. The assessment will also take into account a *new* IHC's progress toward addressing identified weaknesses and meeting supervisory expectations. Specifically, the Federal Reserve will consider the extent to which previously identified risk management, data infrastructure, internal controls and governance weaknesses may affect the credibility of a *new* IHC's capital plan. In turn, the qualitative assessment may highlight key weaknesses in a *new* IHC's internal process that can result in additional supervisory scrutiny more broadly.

In assessing a *new* IHC's estimation approaches, the Federal Reserve will focus on areas that are material to the firm. For example, market and counterparty default risks from broker-dealer activities are particularly material to *new* IHCs, and, therefore, the Federal Reserve expects each *new* IHC to have sound practices to identify and consider those risks as part of their overall capital planning processes, and will pay added attention to the strength of those practices relative to other risk areas.

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5 See 12 CFR 225.8(e)(2).

6 12 CFR 225.8(e)(1).

7 See 12 CFR 225.8(e)(3).

8 See 12 CFR 225.8(f)(1).

9 These areas of assessment are described in SR letter 15-18, "Federal Reserve Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms," December 18, 2015, www.federalreserve.gov/bankinforeg/srletters/sr1518a1.pdf. See also 12 CFR 225.8(f)(2)(ii).

Firms that receive a qualitative objection generally have a critical deficiency in one or more material areas or have significant deficiencies in a number of areas that undermine the overall reliability of a *new* IHC's capital planning process. Specifically, the reasons for a qualitative objection are:

- A firm has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process.
- The assumptions and analyses underlying a capital plan, or the methodologies for reviewing the capital adequacy process, are not reasonable or appropriate.
- The capital planning process or proposed capital distributions otherwise constitute an unsafe or unsound practice or would violate any law, regulation, Board order, directive, or any condition imposed by, or written agreement with, the Board or the appropriate Federal Reserve Bank.[10]

The Federal Reserve will inform each *new* IHC of the results of the qualitative assessment by June 30, 2017. Please refer to the "Comprehensive Capital Analysis and Review 2017 Summary Instructions for LISCC and Large and Complex Firms" for more information about the qualitative assessment.

All questions from *new* IHCs should be addressed through the secure CCAR Communications mailbox, at info@CCAR.frb.org.

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[10] See 12 CFR 225.8(f)(2)(ii).