FEDERAL RESERVE SYSTEM

12 CFR Parts 217, 225, and 252

Regulations Q, Y, and YY; Docket No. R-1603 and RIN 7100-AF 02

Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules

AGENCY: Board of Governors of the Federal Reserve System (Board).

ACTION: Final rule.

SUMMARY: The Board is adopting a rule (final rule) that simplifies the Board's capital framework while preserving strong capital requirements for large firms. The final rule would integrate the Board's regulatory capital rule (capital rule) with the Comprehensive Capital Analysis and Review (CCAR), as implemented through the Board's capital plan rule (capital plan rule). The final rule makes amendments to the capital rule, capital plan rule, stress test rules, and Stress Testing Policy Statement. Under the final rule, the Board will use the results of its supervisory stress test to establish the size of a firm's stress capital buffer requirement, which replaces the static 2.5 percent of risk-weighted assets component of a firm's capital conservation buffer requirement. Through the integration of the capital rule and CCAR, the final rule would remove redundant elements of the current capital and stress testing frameworks that currently operate in parallel rather than together, including the CCAR quantitative objection and the assumption that a firm makes all capital actions under stress. The final rule applies to bank holding companies and U.S. intermediate holding companies of foreign banking organizations that have $100 billion or more in total consolidated assets.

DATES: Effective [60 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER], with a firm's first stress capital buffer requirement, as determined under the final rule, effective October 1, 2020.

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I. Introduction

Over the past ten years, stress testing has become a fundamental element of the Federal Reserve's supervision program for large banking organizations. In the same time period, the Board has strengthened the ongoing regulatory capital requirements applicable to these firms. On April 10, 2018, the Board issued a proposal to simplify its stress testing and regulatory capital frameworks with the introduction of the stress capital buffer requirement (the proposal).[1] This final rule adopts the stress capital buffer requirement set forth in the proposal with certain adjustments. As in the proposal, the Board will use the results of its supervisory stress test to determine a firm's stress capital buffer requirement. A firm's stress capital buffer requirement, which varies based on a firm's risk, replaces the fixed 2.5 percent of risk-weighted assets portion of its capital conservation buffer requirement. A firm that does not maintain capital ratios above its minimums plus its buffer requirements faces restrictions on its capital distributions and discretionary bonus payments. This approach integrates CCAR with the capital rule, simplifies the Board's overall approach to capital regulation, and preserves strong capital requirements. Separate from the final rule, the Board intends to propose at a future date modifications to further simplify and increase the transparency of the stress testing framework.

II. Background and overview of the final rule

A. Background on the Stress Testing and Regulatory Capital Frameworks

At the height of the 2008-2009 financial crisis, the Board created the Supervisory Capital Assessment Program (SCAP) as a way to help restore confidence in the largest U.S. banking organizations. SCAP estimated potential losses at those firms assuming that economic and

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[1] See 80 FR 18160 (April 25, 2018).

financial conditions worsened. Building on the success of SCAP, the Board implemented the capital plan rule, which requires the largest firms to develop and maintain capital plans supported by robust processes for assessing their capital adequacy. The CCAR exercise established a quantitative assessment of firms' capital adequacy for all subject firms and a qualitative assessment of the capital planning practices of the largest and most complex firms' capital planning practices. The quantitative assessment includes an evaluation of firms' capital adequacy and their ability to continue to lend and absorb potential losses under severely adverse conditions. Under the CCAR quantitative evaluation, a firm is required to demonstrate the ability to maintain capital ratios above the minimum requirements under stress, taking into account nine quarters of planned capital distributions. In the qualitative assessment, the Federal Reserve evaluated how the largest and most complex firms identify, measure, and determine capital needs for their material risks.

At the same time that the Board was building the stress testing program, it was also making changes to its capital rule to address weaknesses observed during the 2008-2009 financial crisis.[2] These changes included the establishment of a minimum common equity tier 1 (CET1) capital requirement and a fixed capital conservation buffer equal to 2.5 percent of risk-weighted assets.[3] Large banking organizations also became subject to a countercyclical capital buffer requirement, and the largest and most systemically important firms – global systemically important bank holding companies, or GSIBs – became subject to an additional capital buffer based on a measure of their systemic risk, the GSIB surcharge.[4] The capital rule's buffer

[2] See 12 CFR part 217.

[3] See 12 CFR 217.11.

[4] See 80 FR 49082 (August 14, 2015).

requirements impose increasingly strict automatic limits on capital distributions as a firm's capital ratios decline toward the minimum requirements. For example, a firm in the bottom quartile of its capital conservation buffer may not make any capital distributions without prior approval from the Board.

Stress testing and stronger capital requirements have significantly improved the resilience of the U.S. banking system. The common equity capital ratios of firms subject to CCAR have more than doubled since 2009. Combined, these firms hold more than $1 trillion of CET1 capital. Notwithstanding these important improvements, the Board believes it is prudent to periodically review its regulations to ensure they are achieving their goals in an effective and efficient manner. Importantly, although the capital plan rule and the capital rule share similar goals, they were developed separately, and this has led to certain significant redundancies in the Board's capital framework. In keeping with other recent efforts to improve the efficiency and risk-sensitivity of its regulations, the Board is adopting this final rule to integrate the overlapping requirements in the capital plan rule and the capital rule to increase the efficiency and simplicity of the Board's capital framework while maintaining its risk sensitivity and improvements in capital adequacy.

B. Overview of the Proposed Rule and Summary of Comments

Under the proposed rule, for each firm subject to the capital plan rule, the Board would have calculated a stress capital buffer requirement based on the results of the supervisory stress test and four quarters of planned common stock dividends. The stress capital buffer requirement would have replaced the fixed 2.5 percent component of a firm's capital conservation buffer requirement. The proposal also would have introduced a stress leverage buffer on top of the 4 percent minimum leverage ratio requirement for firms subject to the capital plan rule. A firm's stress capital buffer requirement would have been "floored" at 2.5 percent of risk-weighted assets, whereas the stress leverage buffer requirement would not have included a floor. A firm would have been required to maintain risk-based and leverage-based capital ratios above its buffer requirements in order to avoid restrictions on its capital distributions and certain discretionary bonus payments. The proposal also would have made changes to the Board's capital plan and stress test rules and related policy statements, and would have eliminated: (1) the assumption that a firm would make all planned capital distributions over the planning horizon, (2) the assumption that a firm's balance sheet assets would increase over the planning horizon, (3) the quantitative objection in CCAR; and (4) the 30 percent dividend payout ratio as a criterion for heightened scrutiny of a firm's capital plan.

The Board received twenty-six comments on the proposal from banking organizations, public interest groups, private individuals, and other interested parties. Many commenters were supportive of the proposal's goal of integrating CCAR and the Board's capital rule. Commenters had mixed views, however, on the calibration of the stress capital buffer requirement, the need for a stress leverage buffer, the proposed changes to the assumptions in the Board's stress testing framework, and the flexibility provided to firms in their capital planning.[5]

Some commenters asserted that the proposed stress capital buffer requirement was too stringent, particularly when combined with the GSIB surcharge and the countercyclical capital buffer, and suggested alternatives. Other commenters asserted that it was important for the Federal Reserve to not take action that would lower capital requirements for any firm given

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[5] The Board received a number of comments that were outside of the scope of the proposal. In particular, commenters recommended further revisions related to the U.S. GSIB capital surcharge rule, total loss absorbing capacity rule, and current expected credit losses standard.

improvements in capital since the 2008-2009 financial crisis and that the Board should retain the assumption that firms make nine quarters of dividends and share repurchases in the stress test.

Some commenters urged the Board to eliminate the proposed stress leverage buffer requirement, noting that its inclusion adds complexity to capital requirements and is inconsistent with the role of the leverage ratio as a backstop to risk-based capital requirements. These commenters were concerned that the proposed stress leverage buffer requirement would increase the probability that a banking organization's binding post-stress capital constraint would be a leverage requirement rather than a risk-based requirement. Some of these commenters argued that there should be a clearer delineation between the capital framework's risk-based and non-risk-based measures. Other commenters supported adopting the proposed stress leverage buffer requirement and urged the Board to retain a post-stress capital requirement for the supplementary leverage ratio to maintain the practice of evaluating off-balance sheet exposures in the supervisory stress test.

Regarding the proposed changes to the assumptions in the stress test, some commenters argued that the Board should not include four quarters of common stock dividends in the stress capital buffer requirement because the capital rule already contains a distribution limitation mechanism to restrict a firm from making dividend payments if its capital ratios were at or below its minimums plus buffer requirements. Other commenters argued that not only should the Board include four quarters of dividends in the stress capital buffer requirement, but that the Board also should retain its assumption that a firm makes nine quarters of share repurchases and dividends as certain firms made dividend payments and executed share repurchases well into the beginning of the 2008-2009 financial crisis.

Several commenters supported the proposed modifications to the balance sheet growth assumptions. Other commenters asserted that the Board should assume that trading assets would decline under stress, as such a reduction would align with reasonable expectations under stress. Still other commenters disagreed with the proposed modification to the balance sheet growth assumptions, as the current assumption that balance sheet assets would grow over the planning horizon helped to ensure that firms can lend and support the real economy during stress. These commenters were concerned that the proposed revisions would not ensure that banks would continue their credit intermediation function during a recession.

Some commenters asserted that, in light of the proposal integrating CCAR with the capital rule, the Board should address the potential volatility of Board's stress testing framework, including revising the Board's scenario design process and revising the definition of eligible retained income in the capital rule to ensure that the distribution restrictions in the capital rule gradually restrict a firm's ability to make capital distributions. Finally, regarding the ability of a firm to make distributions in excess of those in its capital plan, some commenters supported allowing the firm to exceed its planned capital distributions if its capital ratios were above those projected in the bank holding company baseline scenario projections.[6] Others recommended allowing a firm to increase its planned capital distributions without prior approval from the Board as long as the firm did not exceed the distributions permitted under the capital rule's capital conservation buffer requirement. Other commenters supported maintaining the requirement that a firm seek approval from the Board before making capital distributions in

[6] The capital plan rule requires firms to submit a request to the Board for approval of a capital distribution that exceeds the amount of capital distributions described in a firm's annual capital plan submission.

excess of those in its capital plan, arguing that removing this requirement would weaken capital standards by allowing banks additional leeway in making capital distributions.

C. Overview of the Final Rule

The final rule integrates the capital plan rule and the capital rule by using the results of the supervisory stress test to establish a firm's stress capital buffer requirement and establish a unified approach to capital distribution limitations. Specifically, a firm's stress capital buffer requirement is calculated as: (1) the difference between the firm's starting and minimum projected CET1 capital ratios under the severely adverse scenario in the supervisory stress test (stress test losses) plus (2) the sum of the dollar amount of the firm's planned common stock dividends for each of the fourth through seventh quarters of the planning horizon as a percentage of risk-weighted assets (dividend add-on).[7] A firm must maintain capital ratios above the sum of its minimum requirements and buffer requirements in order to avoid restrictions on capital distributions and discretionary bonus payments.

In a change from the proposal, the final rule does not include a stress leverage buffer requirement in order to maintain a clear distinction between the capital framework's risk-based and non-risk-based capital requirements. In addition, to address the potential volatility of the stress capital buffer requirement and to ensure that the distribution limitations in the capital rule work as intended, the final rule revises the definition of eligible retained income to a quarterly average net income measure under certain conditions.

The final rule adjusts the distribution assumptions used in CCAR by no longer presuming that a firm will make all planned capital distributions, including common stock dividends and

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[7] The planning horizon is the period of at least nine consecutive quarters over which the relevant projections extend, beginning with the quarter preceding the quarter in which the firm submits its capital plan.

repurchases, over the nine-quarter planning horizon. Instead, a firm's stress capital buffer requirement includes four quarters of planned common stock dividends (in the fourth through seventh quarters of the nine-quarter planning horizon). In a change from the proposal, to simplify the calculation of the dividend add-on and to create consistency between the calculation of the dividend add-on and the portion of the stress capital buffer requirement attributable to the decline in CET1 ratios, the Board will no longer calculate the dividend add-on as the sum of the ratios of the dollar amount of the firm's planned common stock dividends divided by the projected risk-weighted assets for each of the fourth through seventh quarters of the planning horizon. Instead the divided-add-on will be calculated by dividing the sum of the four quarters of planned common stock dividends by the projected risk-weighted assets from the quarter in which the firm's projected CET1 capital ratio reaches its minimum in the supervisory stress test.

In addition, the final rule adjusts the methodology used in the supervisory stress test to assume that a firm takes actions to maintain a constant level of assets, including loans, trading assets, and securities over the planning horizon. In a change from the proposal, to simplify the stress test and to avoid potentially double-counting the impact of a merger or acquisition, the stress capital buffer requirement in the final rule does not include the projected impact of material business plan changes. Instead, any impact of these business changes will be reflected in a firm's ongoing capital ratios once the business plan change is consummated. As in current CCAR, the Board may require a firm to resubmit its capital plan and recalculate the firm's stress capital buffer requirement in the event of material business changes.

The final rule also modifies certain elements in CCAR to further the goal of establishing a unified approach to capital distribution limitations. Specifically, the final rule eliminates the once-a-year quantitative objection process, given the integration of stress-test results into the stress capital buffer requirement's automatic distribution limitations.[8] Relatedly, the final rule eliminates the 30 percent dividend payout ratio as a criterion for heightened scrutiny of a firm's capital plan.

Finally, while the final rule continues to require a firm to describe its planned capital distributions in a capital plan, a firm is no longer required to seek prior approval if it makes capital distributions in excess of those included in its capital plan (so long as the firm is otherwise in compliance with the capital rule's automatic restrictions on distributions). This approach harmonizes the approach to capital distributions in the capital plan rule and the capital rule. A similar change was made to provide additional flexibility in the "adjustment process" to permit a firm to increase its planned capital distributions upon receipt of its initial stress capital buffer requirement.[9]

III. The Stress Capital Buffer Requirement

This section describes the calculation of the stress capital buffer requirement, including its calibration, and the changes to the assumptions in the Board's stress testing framework. The final rule adopts the calculation of the stress capital buffer requirement as proposed. It also includes a revised definition of eligible retained income, which affects how the stress capital buffer requirement limits capital distributions. As discussed below, and in response to comments, the final rule does not include a stress leverage buffer requirement.

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[8] In March 2019, the Board eliminated the CCAR qualitative objection for most firms. 84 FR 8953 (March 13, 2019). Specifically, a firm that participates in four assessments and successfully passes the qualitative evaluation in the fourth year is no longer subject to a potential qualitative objection.

[9] Upon completion of the supervisory stress test, the Federal Reserve will provide each firm with the results of its post-stress capital analysis, and each firm will have an opportunity to make a one-time adjustment to its planned capital actions.

A. Assumptions, Methodologies and Calculation Mechanics used in Determining the Stress Capital Buffer Requirement

The calculation of the stress capital buffer requirement generally includes the changes described in the proposal related to capital distribution and balance sheet assumptions. This section discusses the comments received on the proposed calculation of the stress capital buffer requirement and changes made in response to comments.

i. Capital Distribution Assumptions

In its assessment of capital plans through CCAR, the Board assumed that a firm would make all nine quarters of its planned capital distributions, including dividend payments and share repurchases, under stress. The proposal would have modified this assumption to no longer assume that a firm made these planned capital distributions but, instead, would have included four quarters of planned common stock dividends in the calculation of the stress capital buffer requirement. In addition, the proposal would have eliminated the 30 percent dividend payout ratio as a criterion for heightened scrutiny of a firm's capital plan.

Commenters generally were supportive of the proposal to eliminate all nine quarters of planned capital distributions. Several commenters similarly were opposed to including four quarters of planned dividends in the calculation of the stress capital buffer requirement, viewing it as unnecessary, complicated, and unduly punitive given the capital rule's existing automatic restrictions on capital distributions. These commenters asserted that if the Board maintains this requirement, it should allow a firm to continue to pay its planned dividends if the firm's capital ratios were in the dividend add-on portion of its buffer requirements. In addition, several commenters asserted that the underlying rationale for including four quarters of planned dividends does not apply to U.S. intermediate holding companies of foreign banking organizations given their ownership structures.

Other commenters were supportive of including distributions in the calculation of the stress capital buffer requirement to create strong incentives for disciplined, forward-looking capital planning. Some commenters also argued that requiring a four-quarter dividend add-on is arbitrary and inconsistent with historical experience, while other commenters recommended that repurchases and redemptions should also factor into the stress capital buffer requirement.

After considering these comments, the Board is adopting the proposed changes to the capital distribution assumptions, as proposed. Although including four quarters of planned common stock dividends in the calculation of a firm's stress capital buffer requirement adds a level of complexity to the stress capital buffer requirement calculation process, this approach is one way of promoting forward-looking dividend planning given historical experience. During the last financial crisis, many firms continued to make significant distributions of capital, including through dividends, without due consideration of the effects that a prolonged economic downturn could have on their capital adequacy. In addition, the dividend add-on requirement is one way to mitigate the procyclicality of the Board's stress testing framework, because dividends tend to be higher when the economy is strong and earnings are high. [10]

To further simplify the Board's stress test framework, the final rule also removes the 30 percent dividend payout ratio applied as a criterion for heightened supervisory scrutiny of a firm's capital plan. This criterion was adopted to encourage firms to increase payouts through additional share repurchases rather than dividends. A dividend payout ratio criterion is no longer

[10] As in the current supervisory post-stress capital assessment, the Board will continue to assume in the supervisory stress test that a firm will make payments on any instrument that qualifies as additional tier 1 capital or tier 2 capital equal to the stated dividend, or contractual interest or principal due on such instrument during the quarter. Based on supervisory experience, reductions in these payments are generally viewed by market participants as a sign of material weakness, and firms are therefore likely to make them even under stressful conditions (see 12 CFR 217.20(c) and (d)).

necessary because the final rule's automatic distribution limitations, combined with the perceived market signaling effect of dividend cuts, will sufficiently restrict dividend increases in the future.

One commenter suggested that the Board include issuances related to employee compensation in the stress capital buffer requirement calculation as an offset to the impact on retained earnings that would be embedded in the stress test results. The final rule does not include most other capital actions in the stress test and excluding employee stock issuances, along with related share repurchases, is consistent with this approach. This approach also will make the stress test results more comparable across firms and more transparent to the public. Similar to other capital actions that are not included in the stress test results, in real-time, issuances related to employee compensation increase a firm's capital ratio and, therefore, impact the firm's ability to avoid the automatic distribution limitations. For these reasons, the final rule excludes such issuances in the calculation of the stress capital buffer requirement, consistent with the proposal.

ii. Balance Sheet Assumption

Under the proposal, the Board would have modified its methodology for projecting a firm's balance sheet in the supervisory stress test. The proposal would have updated the Board's Stress Testing Policy Statement to include the assumption that a firm takes actions to maintain its current level of assets, including securities, trading assets, and loans, over the planning horizon.[11] This assumption would have simplified the current supervisory stress test and also dissuaded firms from planning to reduce credit supply in a stress scenario. In addition, the proposal would

[11] While the Board will assume in the supervisory post-stress capital assessment that a firm's balance sheet does not grow, in a firm's company-run stress tests, the Board expects each firm's projected balance sheet to be consistent with each scenario and the firm's business strategy.

have revised the Stress Testing Policy Statement to reflect that, in its projections, the Board would assume that a firm’s risk-weighted assets and leverage ratio denominator remain unchanged over the planning horizon except for changes primarily related to deductions from regulatory capital or changes in the Board’s regulations.

Many commenters supported the proposed change to assume that the size of a firm’s balance sheet remains constant over the planning horizon, arguing that this change would make the supervisory projections more realistic. Commenters opposing the proposed change argued that the Federal Reserve should continue to model balance sheet growth, noting that bank balance-sheets have grown during periods of stress and that CCAR should continue to evaluate whether a firm could continue to provide credit and support the real economy. Other commenters suggested that rather than assuming no growth, the Board’s projections should assume that market declines and losses would reduce trading assets and risk-weighted assets. Commenters also requested that the Board require firms to make consistent assumptions in stress tests conducted by the firm.

Consistent with the proposal, the final rule revises the Board’s Stress Testing Policy Statement to include the assumption that a firm takes actions to maintain its current level of assets over the planning horizon. Although a firm’s balance sheet may change in different ways in periods of stress, a constant balance sheet assumption simplifies the Board’s stress testing framework, while dissuading firms from planning to reduce credit supply in a stress scenario.

iii. Business Plan Changes

Similar to the Board’s current methodology, the proposal would have reflected the impact of expected changes to a firm’s business plan that are likely to have a material impact on the firm’s capital adequacy and funding profile (material business plan changes) in balance sheet, risk-weighted asset, and leverage ratio denominator projections for purposes of calculating the stress capital buffer requirement.[12] One commenter suggested that the Board not reflect the impact of a material business plan change, such as a merger or acquisition, in a firm's stress capital buffer requirement because the impact would be reflected in the firm's balance sheet and risk-weighted assets once the merger or acquisition is consummated. This commenter argued that this approach would result in double-counting the impact of a merger or acquisition.

The final rule does not incorporate material business plan changes in a firm's stress capital buffer requirement. For example, planned issuances of common or preferred stock in connection with a planned merger or acquisition will not be included in the stress capital buffer requirement calculation. In addition, any planned common stock dividends attributable to issuances that would be made in connection with a planned merger or acquisition will also not be included in the stress capital buffer requirement calculation.[13] Excluding material business plan changes from the stress capital buffer requirement would simplify the framework and reduce burden. Material changes to a firm's business plan resulting from a merger or acquisition are incorporated into a firm's capital and risk-weighted assets upon consummation of the transaction. Including these changes in a firm's stress capital buffer requirement may overstate the impact of the business plan change while also adding complexity associated with predicting the impact of the material change in a firm's balance sheet.

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[12] A firm's capital plan must include a discussion of any expected changes to its business plan that are likely to have a material impact on the firm's capital adequacy or liquidity. <u>See</u> 12 CFR 225.8(e)(2)(iv).

[13] Specifically, the dividend add-on portion of a firm's stress capital buffer requirement will exclude dividends planned for the fourth through seventh quarters of the planning horizon to the extent that these dividends are associated with a material business plan change. To isolate and exclude dividends associated with a material business plan change from other dividends, the Board will rely on information submitted in the capital plans and may collect additional information from firms.

In addition, the final rule would continue to require a firm to include in its capital plan a discussion of any expected changes to the firm's business plan that are likely to have a material impact on the capital adequacy or liquidity position of the firm. This requirement would help to ensure that a firm appropriately plans for changes to its business. If the material business plan change resulted in or would result in a material change in a firm's risk profile, the firm would be required to resubmit its capital plan and the Board may determine to recalculate the stress capital buffer requirement based on the resubmitted capital plan.

The final rule would make conforming changes to the Board's stress testing rules to align with exclusion of material business plan changes in the calculation of the stress capital buffer requirement. The final rule also would make conforming changes to the Stress Test Policy Statement.

iii. Calculation Mechanics

The proposal would have established a firm's stress capital buffer requirement based on the difference between the firm's starting and minimum projected CET1 capital ratios under the severely adverse scenario in the supervisory stress test. One commenter argued that the stress capital buffer requirement should be based on absolute dollar values of capital depletion rather than ratios, because a firm's losses in the stress test do not necessarily correspond to risk-weighted assets or total balance-sheet assets. In addition, one commenter argued for more frequent recalibration of a firm's stress capital buffer requirement.[14]

[14] See Section IV.F for further discussion on the recalculation of the stress capital buffer requirement.

To ensure the capital framework is sufficiently risk-sensitive, the stress capital buffer requirement under the final rule is based on projected changes in a firm's capital ratio.[15] Using the change in projected capital ratios, and not the projected dollars of losses, allows a firm's capital requirements to be sensitive to changes in its risk-weighted assets throughout the year. Under this approach, the Federal Reserve assumes that stress losses are related to a firm's risk-weighted assets. Under the commenter's recommendation, any increase in risk-weighted assets during the course of the year would be treated as having zero dollars of losses in the stress test, thereby reducing risk sensitivity of the capital requirements. With respect to frequency of the stress capital buffer requirement calculation, calculating the stress capital buffer requirement with the same frequency as the stress test promotes both stability in capital requirements and risk sensitivity. As discussed in Section IV.F, if a firm experiences or will experience a material change in its risk profile, the Board may determine to recalculate the firm's stress capital buffer requirement. The Board is therefore adopting the calculation of the stress capital buffer requirement as proposed.

B. Volatility of Capital Requirements and Severity of Scenarios

i. Predictability of Capital Requirements and Stress Test Scenario Volatility

Commenters raised concerns about potential volatility in capital requirements as a result of the Board's stress testing framework under the proposal. Some commenters suggested calculation changes to limit the year-over-year changes in a firm's stress capital buffer requirement. Another commenter suggested reducing volatility by basing the stress capital buffer requirement on firm-developed models, to be reviewed by the Federal Reserve.

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[15] A firm's stress capital buffer requirement will be calculated up to a single decimal place (e.g. – 2.7).

While the proposal would not have amended the Board's scenario design framework, commenters recommended that the Board enhance the transparency of the scenario design process, including by providing more parameters and shock ranges, in order to reduce the uncertainty associated with capital requirements. Commenters had a number of recommendations for enhancing the transparency of scenarios used in the supervisory stress test. Many commenters supported publishing each year's severely adverse scenario for notice and comment. Other commenters, however, thought that publishing the scenario for comment may lead to pressure to not include salient risks that reflect current market conditions.

Some degree of volatility is inherent to risk-based capital requirements, including those determined by stress testing, as such requirements are sensitive to changes in a firm's activities, exposures and changes to macroeconomic conditions. In addition, some volatility in stress test results is to be expected because the stress test is designed to capture a firm's vulnerability to plausible and salient risks to the U.S. financial system. The Federal Reserve continues to study potential ways to mitigate unnecessary volatility in requirements, while retaining plausible changes in the scenarios to reflect changing risks.

To provide firms and the public with greater transparency regarding the Board's process for designing supervisory scenarios for stress testing, in 2013 the Board finalized a Policy Statement on the Scenario Design Framework for Stress Testing (Scenario Policy Statement).[16] On February 5, 2019, the Board released materials intended to increase the transparency of the stress testing program.[17] First, the Board updated the Scenario Policy Statement to provide additional information regarding the path of home price variables, in particular, reducing

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[16] See 12 CFR part 252, Appendix A.

[17] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190205a.htm

uncertainty about the path of these variables in the severely adverse scenario. Second, the Board adopted a final Stress Testing Policy Statement to provide additional information about the Board's principles and policies with regard to supervisory stress test model development and validation.[18] As described in the Stress Testing Policy Statement, material changes to the supervisory stress test models are phased in over two years to reduce year-over-year volatility stemming from updates to the supervisory models.[19] This approach contributes to the stability of the results of the supervisory stress test by ensuring changes in model projections primarily reflect changes in underlying risk factors and scenarios, year over year. Third, the Board provided additional information about the models used in the supervisory stress test.[20] The Board is committed to continuing to provide additional information, including modeled loss rates by loan and borrower characteristics, of its stress test models as it has done most recently for its corporate loan and credit card models.[21]

Regarding the publication of scenarios for comment, the Board is considering these comments and weighing the benefit of increased transparency against the costs, including, increased risk of window-dressing by firms and reduced flexibility by the Board to respond to salient risks. Finally, the Board received no comments on the use of the severely adverse scenario to size a firm's stress capital buffer requirement, although some commenters expressed

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[18] See 12 CFR part 252, Appendix B.

[19] The Policy Statement defines a model change as highly material if its use results in a change in the CET1 ratio of 50 basis points or more for one or more firms, relative to the model used in prior years' supervisory exercises. See 12 CFR 252, Appendix B 2.3.

[20] See 84 FR 6784 (February 5, 2019).

[21] See Board of Governors of the Federal Reserve System, Dodd Frank Act Stress Test 2019: Supervisory Stress Test Methodology (March 2019), https://www.federalreserve.gov/publications/files/2019-march-supervisory-stress-test-methodology.pdf.

concern regarding the scope of application of additional components of the severely adverse scenario. Because these additional components capture risks that are not sufficiently captured by the macroeconomic scenario, the final rule maintains the supervisory stress test's severely adverse scenario as the basis for the calculation of a firm's stress capital buffer requirement and makes no changes to the scenario design process.

ii. Abruptness of Buffer Restrictions

In light of the proposed integration of the supervisory stress test results into the capital rule, several commenters suggested that the Board revisit the mechanics of the capital conservation buffer requirement's payout restrictions, including the definition of eligible retained income. Specifically, commenters noted the case of a relatively healthy firm in normal economic conditions that distributes the full amount of its earnings in each of the preceding four quarters, such that its eligible retained income in the current quarter is zero. Under the proposal, if such a firm's capital ratios were to immaterially fall below its buffer requirements due to an increase in its stress capital buffer requirement, that firm would have been prohibited from making any distributions. To address this issue, some commenters recommended the calculation provided under the definition of eligible retained income should be based on a firm's prior four quarters of earnings *gross* of distributions. Other commenters suggested adopting a prospective payout restriction based on earnings recognized since the end of the last quarter in which a firm failed to meet its full stress capital buffer requirement. Some commenters noted that because firms are more likely to decrease share repurchases before decreasing dividends and executive compensation, the capital conservation buffer's payout restrictions should initially restrict only repurchases, and subsequently restrict dividends and executive compensation if a firm's capital levels declined further.

The proposal would have used the current capital rule's definition of eligible retained income, which was adopted in the wake of the financial crisis when firms tended to retain a substantial portion of their earnings. Under a more benign business environment, firms tend to distribute all or nearly all of their net income, resulting in very low or zero eligible retained income and potential sudden and severe distribution limitations if a firm's capital ratio unexpectedly falls below its capital conservation buffer requirement. To reduce the potential for such a scenario, in connection with the stress capital buffer requirement, the final rule replaces the capital rule's current concept of eligible retained income with quarterly average net income – the average of a firm's previous four quarters of net income – in certain cases. Specifically, to the extent that a firm's risk-based capital ratios determined under the standardized approach exceed the minimum requirements plus 2.5 percent plus any applicable GSIB surcharge and countercyclical capital buffer amount, the firm would use quarterly average net income to determine its eligible retained income.

For example, under the final rule, if a firm has a stress capital buffer requirement of 5.5 percent, and its CET1 capital ratio falls to 3 percent above the minimum requirement, the firm would use the average of its past four quarters of net income to calculate its maximum distributable amount. However, to ensure that firms subject to the stress capital buffer requirement are not subject to a capital conservation buffer requirement that is less strict than that the requirements that apply more broadly under the current capital rule, if this firm's CET1 capital ratio falls below 2.5 percent above the minimum requirements, the firm would be required to calculate its maximum distributable amount by using the previous four quarters of net income net of any distributions and associated tax effects not already reflected in net income.

Even though income and capital ratios will not be reported on a firm's filings until later in the quarter, firms that are subject to the stress capital buffer requirement are expected to know their capital positions and be able to calculate any distribution restrictions on a daily basis. If a firm has any uncertainty regarding its quarter-end capital ratios prior to filing its regulatory reports, it should be conservative with capital distributions (including repurchases) during the beginning of a calendar quarter in order to avoid a situation in which it distributes more than the amount permitted under the capital rule. Under the final rule, all other aspects of the stress capital buffer requirement are being finalized as proposed. Moving from the current definition of eligible retained income to a quarterly average net income measure in the capital rule makes the automatic limitations on a firm's distributions more gradual as the firm's capital ratios decline.

C. Stress Leverage Buffer

The proposal would have included a stress leverage buffer requirement that would be determined based on the supervisory stress test. Some commenters urged the Board to remove the proposed stress leverage buffer requirement, noting that it could undermine the purpose of leverage-based measures to act as a simple, risk-insensitive backstop to risk-based capital requirements. These commenters were concerned that the proposed stress leverage buffer requirement would increase the probability that a banking organization's binding post-stress capital constraint would be a leverage requirement rather than a risk-based one, and would add complexity to the capital rule. One commenter suggested that if the Board adopts the proposed stress leverage buffer requirement, it should revise the capital rule such that the stress leverage buffer requirement does not result in payout restrictions, but would only prompt heightened scrutiny through the Federal Reserve's ongoing supervisory processes. Other commenters supported adopting the proposed stress leverage buffer requirement and some urged the Board to retain a post-stress capital requirement for the supplementary leverage ratio to maintain the practice of evaluating off-balance sheet exposures in the supervisory stress test.

Because leverage requirements are not risk-sensitive, the Board has long held the view that leverage ratio requirements should serve as a robust backstop to the risk-based requirements. In light of the integration of CCAR and the Board's non-stress capital requirements, which include leverage ratio requirements that serve as a backstop to the risk-based requirements, the final rule does not contain a stress leverage buffer requirement. Non-stress leverage ratio requirements continue to apply to all firms. The final rule results in unchanged CET1 capital requirements and not imposing a stress leverage buffer requirement increases the likelihood that that risk-based requirements will be the binding requirement for firms.

D. Effective Dates for Stress Capital Buffer Requirement

A firm's stress capital buffer requirement becomes effective on October 1 of each year, and remains in effect until September 30 of the following year, unless the firm receives an updated stress capital buffer requirement from the Board.[22] The final rule will be effective [60 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER], and a firm's first stress capital buffer requirement will be effective on October 1, 2020.[23]

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[22] A firm may receive an updated stress capital buffer requirement in connection with a resubmitted capital plan or in connection with a request for reconsideration (as described in section IV of this preamble).

[23] To provide a transition between the 2019 CCAR cycle and the first stress capital buffer requirement, for the period from July 1 through September 30, 2020, a firm will be authorized to make capital distributions that do not exceed the four-quarter average of capital distributions for which the Board or Reserve Bank indicated its non-objection in the previous capital plan cycle, unless otherwise determined by the Board.

IV. Changes to the Capital Plan Rule

This section describes changes to the capital plan rule. Specifically, the final rule adopts the proposal's elimination of the quantitative objection and the process by which a firm determines the final planned capital distributions included in its capital plan. As discussed below and in response to comment, under certain conditions, the final rule no longer requires a firm to request prior approval to make distributions that exceed the amount included in its capital plan. The final rule also clarifies the timeline and procedures related to a firm's stress capital buffer requirement, requests for reconsideration, and capital plan resubmissions.

A. Quantitative Objection

The proposal would have replaced the ability for the Board to object to a firm's capital plan if the firm did not demonstrate the ability to maintain capital ratios above the minimum requirements on a post-stress basis with the automatic distribution limitations included in the capital rule, which would include the firm's stress capital buffer requirement. Commenters generally were supportive of the elimination of the quantitative objection, and the final rule eliminates the quantitative objection as proposed.

One commenter requested that the Board clarify that it would not qualitatively object to a firm's capital plan based on quantitative weaknesses in the firm's capital position. As noted above, the Board adopted a final rule in March 2019 to limit the use of the qualitative objection. For those firms that remain subject to the qualitative objection in CCAR 2020, the Board will not evaluate the firm's ability to maintain capital ratios above minimum requirements on a post-stress basis as a factor in its decision to object or not object to the firm's capital plan on a qualitative basis. As proposed, in determining whether to object to a firm's capital plan, the Board will consider whether the firm has material unresolved supervisory issues, the assumptions and analysis underlying its capital plan, and the capital planning process and methodologies of the firm.

B. Requirements for a Firm's Planned Capital Distributions

To help ensure that a firm's planned capital distributions are consistent with statutory and regulatory requirements, the proposal would have required a firm to limit the planned capital distributions included in its capital plan for the fourth through seventh quarters of the planning horizon to those that would be consistent with any effective capital distribution limitations that would apply under the firm's own baseline projections (BHC baseline scenario).[24] The proposal specified that a firm would be required to plan for all limitations on capital distributions in the Board's rules, except those specifically related to the advanced approaches capital conservation buffer requirement and total loss-absorbing capacity buffer requirement calculated using the advanced approaches.[25] As discussed further in Section IV.D, the proposal would have required a firm to adjust its planned distributions to be consistent with these distribution limitations under the BHC baseline scenario, assuming the new stress capital buffer requirement applied.

The Board did not receive any comments on the requirement that firms must plan to be in compliance with the capital rules in their BHC baseline scenario projection, and the Board is adopting this aspect of the proposed rule without modification.

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[24] Under the proposal, a firm would have been required to ensure its planned capital distributions were consistent with any limitations on capital distributions in effect, including those related to any applicable capital buffer requirement, that it anticipates would apply under baseline conditions under the capital rule's standardized approach in the upcoming year. However, the proposal would not have required a firm to consider planned discretionary bonus payments.

[25] See e.g., 12 CFR 217.11, 12 CFR 252.63, 12 CFR 252.165, and 12 CFR part 263.

C. Elimination of Prior Approval

The proposal would have retained the requirement that a firm generally seek prior approval from the Board to make a capital distribution in which the dollar amount of the firm's capital distributions exceeded the amount described in its capital plan. The Board sought comment on alternative approaches to this requirement, including the advantages or disadvantages of providing additional flexibility for a firm to make capital distributions in excess of the capital distributions included in its capital plan.

Some commenters asserted that the prior approval requirement is unnecessary and duplicative in light of automatic distribution restrictions already in place in the capital rule. These commenters argued that retaining this requirement would result in undue burden on firms and would be inconsistent with the proposal's goal of simplifying the Board's capital requirements. These commenters also argued that eliminating prior approval would support flexible capital planning by allowing firms to adapt to actual capital and earnings. Other commenters were supportive of retaining the requirement. These commenters argued that providing additional flexibility to make capital distributions would further weaken capital standards by allowing firms additional leeway in making capital distributions and would be unnecessary in light of firm profitability and recent distributions.

Commenters provided a number of suggestions for allowing firms to increase their planned capital distributions without seeking approval from the Board, including eliminating the prior approval requirement altogether. For, example, some commenters supported allowing a firm to exceed the capital distributions included in its capital plan on the condition that the firm's capital ratios exceeded its BHC baseline scenario projections. Others recommended that all increases in planned capital distributions become subject to an expedited prior approval requirement, such as the process applied to de minimis capital distribution increases, or that the Board remove the "blackout period" during which a firm is not permitted to request prior approval. These commenters also argued that the stress capital buffer requirement should be used to satisfy prior approval requirements in the capital rule, which requires a firm to seek prior approval for redemptions and repurchases of regulatory capital instruments.[26]

After reviewing the comments, the Board has modified the proposed rule so that, as a general matter, a firm will no longer be required to request prior approval to make distributions in excess of those included in its capital plan, provided that the distribution is consistent with distribution limitations included in the capital rule. Removing the requirements to request prior approval for incremental capital distributions reduces burden, further integrates the capital plan rule and the capital rule, and provides firms with additional flexibility in capital planning. Under the final rule, firms will remain subject to the automatic distribution limitations in the capital rule, which will include a firm's stress capital buffer requirement.

While the final rule provides firms additional flexibility, the capital plan rule requires that a firm engage in capital planning. A firm's processes for managing and allocating its capital resources are critical to its financial strength and resiliency and also to the stability and effective functioning of the U.S. financial system. The capital plan rule requires a firm to develop and maintain a capital plan that includes an assessment of the sources and uses of capital and reflects

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[26] As part of a separate final rule to simplify elements of the capital rule, the Board amended section 20 of the capital rule to remove the requirement to obtain prior approval of the Board before redeeming or repurchasing CET1 capital instruments only to the extent otherwise required by law or regulation. That final rule largely removes prior approval requirements for redemptions and repurchases of CET1 capital under the capital rule. Firms must obtain prior approval to redeem or repurchase CET1 capital only to the extent otherwise required by law or regulation, such as the requirements under section 225.4 of Regulation Y or section 11 of the Federal Reserve Act. See 12 CFR 217.20(f) and 84 FR 35234 (July 22, 2019).

forward-looking projections of revenue and losses to monitor and maintain their internal capital adequacy. A capital plan must be reviewed and approved at least annually by the firm's board of directors or a designated subcommittee thereof. The firm's planned capital actions should be consistent with the firm's capital policy, including the amounts of planned dividends and repurchases. Taken together, these requirements help ensure disciplined capital planning. In addition, a firm's capital plan and capital planning processes will continue to be reviewed through the supervisory process and, if applicable, through the qualitative objection.

The final rule also requires a firm to provide the Board and appropriate Reserve Bank with notice within 15 days after making any capital distributions in excess of those included in its capital plan. A firm would provide notice of additional distributions through an update to a firm's FR Y-14A Schedule C, Regulatory Capital Instruments. This reporting requirement will allow the Board to continue to monitor a firm's capital distributions.

Under the final rule, there remain certain circumstances under which a firm will be required to seek prior approval to distribute capital. Specifically, if a firm receives a qualitative objection to its capital plan, it would be required to seek prior approval before making any capital distributions. In addition, if a firm or the Board determines that a firm must resubmit its capital plan, the firm would be required to seek prior approval before making any capital distributions until the firm received prior approval to make distributions or receives notice regarding recalculation of its stress capital buffer requirement. Maintaining prior approval requirements in these instances is appropriate given the circumstances that would give rise to a qualitative objection or a resubmitted capital plan. In the case of a qualitative objection, the Federal Reserve has determined that the firm's capital planning processes are inadequate or unreasonable, or would constitute an unsafe or unsound practice. In the case of a resubmitted capital plan, either the firm or the Board has determined that a material change to the firm's risk profile or financial condition has occurred or will occur, which may indicate that a firm's stress capital buffer requirement no longer adequately reflects its risk profile. Finally, the final rule provides a transition provision during the quarter before the first stress capital buffer requirement is effective to permit a firm to seek prior approval for any distribution that would exceed an amount equal to the average of the capital distributions for the four quarters to which the Board previously indicated its non-objection.

With respect to the limited circumstances under which prior approval would still be required, the final rule makes certain targeted amendments to the prior approval process. Specifically, the final rule clarifies that a firm is required to submit either its current capital plan or a description of changes to its capital plan as part of its request for prior approval. This would permit the Board to consider a prior approval request in advance of receiving a resubmitted plan.[27] The final rule would not change other aspects of the prior approval process, including other informational requirements and the Board's process for considering these requests. In considering a request for prior approval in the past, the Board has generally permitted a firm to make capital distributions that are consistent with distributions included in its capital plan.

In 2016, the Board amended the capital plan rule to include a "blackout period," during which a firm was prohibited from submitting a request for prior approval to make an additional

[27] A firm must resubmit its capital plan within 30 calendar days of determining that a resubmission is required or of receiving notice that a resubmission is required. In some cases, a resubmission may be triggered by an anticipated change to the corporate structure or risk profile of the firm. By allowing the Federal Reserve to consider a prior approval request in advance of receiving a resubmitted plan, the final rule would provide the Board additional flexibility to consider and act on a request based on a discussion of the changes to the capital plan rather than receipt of the capital plan. Consistent with past practice, a firm would be able to incorporate by reference portions of its previously filed capital plan to the extent that those portions are unaffected by the change requiring submission.

capital distribution. This requirement helped to ensure that the Board's quantitative analysis in CCAR would represent a comprehensive and current evaluation of the firm’s capital adequacy. Under the final rule, the calculation of a firm’s stress capital buffer requirement no longer includes capital distributions (except for dividends in projection quarters four through seven), so a request by a firm for prior approval to make an additional capital distribution would not impact the calculation of a firm’s stress capital buffer requirement. In addition, given the circumstances during which prior approval will be required and the potential for a capital plan resubmission at any time of the year, a “blackout period” is unnecessary. Therefore and in response to comments received, the final rule removes the “blackout period” for additional capital distribution requests.

D. Timeline for Reviewing Capital Plans and Calculating the Stress Capital Buffer Requirement

The proposal included an updated timeline for the capital plan cycle under the stress capital buffer framework. The proposal maintained the Board’s timeline for providing a firm with the results of the supervisory stress test and review of its capital plan. Under the proposal, a firm would have received notice of its stress capital buffer requirement by June 30 of each year.

Some commenters expressed concerns regarding the effective date of a stress capital buffer requirement, which are discussed in Section III.D.

The final rule generally adopts the timeline as proposed. Under the final rule, the as-of date for the capital plan cycle will be December 31 of the previous calendar year, and the planning horizon for capital planning will be a period of nine consecutive quarters from that date. Firms will generally submit their capital plans and related regulatory reports by April 5. The Board will generally determine each firm’s stress capital buffer requirement in the second quarter of the year (April through June).[28] By June 30, the Board generally will disclose to the public each firm's stress capital buffer requirement.

Commenters requested further clarity regarding public disclosure of the stress test results and stress capital buffer requirements. Some commenters requested that the Board disclose only one set of results. Other commenters expressed concerns regarding public disclosure of planned dividends and requests for reconsideration. The final rule clarifies, but does not require, that the Board to disclose of certain types of information. Consistent with current practice, the Board anticipates disclosing summary information regarding a firm's stress losses.[29] The Board may consider additional changes to further streamline its stress testing disclosure practices.

The final rule will not be effective before a firm is required to submit its capital plan and the results of its company-run stress test, if applicable, for the 2020 stress testing cycle. The final rule will be effective prior to the Board conducting the supervisory stress test. Accordingly, the results of a company-run stress test will reflect different assumptions, particularly regarding capital actions and material business plan changes, than would be used as part of the supervisory stress test. A firm will be required to disclose the results of its company-run stress test within 15 days of the Board disclosing the results of the supervisory stress test. The Board intends to clarify in its disclosures for 2020 that the assumptions used in the supervisory stress test are

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[28] For firms subject to a potential qualitative objection, the qualitative assessment will take place from April to June. By June 30, the Board generally will disclose the decision to object or not object to the capital plan of any firm subject to a qualitative objection.

[29] As discussed further in Section IV.E. and IV.F., a firm may request reconsideration of its stress capital buffer requirement and the Board may recalculate a firm's stress capital buffer requirement if a firm resubmits its capital plan. In the event that a firm receives a revised stress capital buffer requirement, a firm would be required to disclose its revised stress capital buffer requirement and its buffer on the FR Y-9C form.

different from the assumptions used in the company-run stress tests for 2020 and, therefore, the results are not comparable.

Under the proposal, within two business days of receipt of notice of its stress capital buffer requirement, a firm would have been required to assess whether its planned capital distributions are consistent with the effective capital distribution limitations under the BHC baseline scenario throughout the fourth through seventh quarters of the planning horizon, assuming that the firm's new stress capital buffer requirement replaced any existing stress capital buffer requirement. In the event of an inconsistency, a firm would have been required to reduce the capital distributions in its capital plan to be consistent with such limitations for those quarters of the planning horizon.[30] A firm would have been required to notify the Board of any reductions in capital distributions in its capital plan (adjustment process).

Some commenters expressed concerns regarding the adjustment process. These commenters argued that modifications to the adjustment process were necessary to support flexible capital planning in light of variability in the supervisory stress test, particularly if the Board retained dividend add-on or prior approval requirements. For example, some commenters requested that firms be permitted to increase planned issuances in order to meet the requirements in the BHC baseline scenario projections and to allow planned increases in capital distributions.

In response to comments, the Board has revised this process in the final rule to allow firms to make any adjustments to their planned capital distributions during the two-day adjustments process, provided that the revised planned capital distributions are consistent with the effective capital distribution limitations that would apply on a pro forma basis under the BHC

[30] In addition, a firm that is not required to reduce its planned capital distributions will be permitted to do so after receiving its initial notice.

baseline scenario throughout the fourth through seventh quarters of the planning horizon. Allowing a firm to increase its planned distributions would provide firms additional flexibility in capital planning, including by allowing firms to reflect the results of the supervisory stress test. Any increases in planned dividends in quarters four through seven of the planning horizon would be reflected in a firm's stress capital buffer requirement.

Each firm's updated annual stress capital buffer requirement generally will become effective on October 1 and be in effect until September 30 of the following calendar year. Table 1 below summarizes key actions and the dates that these actions generally will occur in the annual capital plan cycle under the final rule.

Table 1: Key Dates and Actions in the Annual Capital Plan Cycle

Date	**Action**
December 31 of the preceding calendar year	As-of date of the capital plan cycle.
By February 15	Board publishes scenarios for the upcoming capital plan cycle.
By April 5	Each firm submits its capital plan (including results of the bank holding company's stress tests) and relevant regulatory reports.
April through June	Board conducts its supervisory stress test and calculates each firm's stress capital buffer requirement.
By June 30	The Board provides to a firm notice of its stress capital buffer requirement. A firm will have 15 days to make a request for reconsideration.
Within two business days of notice	Each firm must analyze its planned capital distributions for the period of October 1 through September 30 of the following calendar year, adjust its planned distributions if necessary, and provide the Board its final planned capital distributions.
October 1 through September 30 of the following calendar year	Effective dates of a firm's stress capital buffer requirement.

The Board's previous review and approval of planned capital actions covers the four-quarter period between July 1 of each year and June 30 of the following calendar year. The stress capital buffer requirement becomes effective on October 1, 2020. As a result, a firm will not have any approved planned capital actions for the period July 1 to September 30, 2020. To provide a transition to the stress capital buffer requirement, the final rule authorizes a firm to make capital distributions for the period July 1 to September 30, 2020, that do not exceed a four quarter average of capital distributions to which the Board indicated its non-objection for the previous capital plan cycle, unless otherwise determined by the Board. A firm may seek prior approval to make additional capital distributions beyond this four-quarter average amount using the prior approval process discussed in Section IV.C.

E. Requests for Reconsideration

The proposed rule would have modified the process for requesting reconsideration of an objection to a capital plan and extended this process to include the ability to request reconsideration of the stress capital buffer requirement. Under the proposal, a firm that requested reconsideration of its stress capital buffer requirement would have been required to submit a request to the Board in writing within 15 days of receipt of the firm's stress capital buffer requirement, and the Board would have responded in writing within 30 days. The firm's request would have been required to include an explanation of why the firm believes that its stress capital buffer requirement should be reconsidered.

The proposed procedures were intended to provide a firm with an opportunity to respond to its stress capital buffer requirement or a qualitative objection to its capital plan, and to help ensure that the stress capital buffer requirement is appropriately sized and that the Board has considered all relevant aspects of the firm's capital planning and capital adequacy process. Some commenters argued that the proposed timeline for the reconsideration process should be extended, asserting that the proposed October 1 effective date of the stress capital buffer requirement would provide insufficient time to prepare for changes in capital requirements and, as a result, reduce the usefulness of the reconsideration process. These commenters argued that a firm would be required to prepare for a stress capital buffer requirement during the pendency of a request for reconsideration, reducing the value of the reconsideration process.

The final rule maintains the proposed reconsideration process and timeline without modification. This process is based on the process that has been included in the capital plan rule since its adoption in 2011.[31] The reconsideration process is intended to provide the firm with a meaningful opportunity to request reconsideration of the stress capital buffer requirement or objection to a capital plan, including through the presentation of additional information, while promoting an efficient process. In particular, the timeline is intended to provide an opportunity for response, while ensuring that the results of the supervisory stress test and a firm's most recent capital plan are reflected in the firm's ongoing capital requirements and planned distributions as quickly as possible. Prolonging the period for requesting reconsideration or responding to a request for reconsideration also would delay incorporation of more current information about a firm's risk profile that are not contested, including its balance sheet, into the firm's stress capital buffer requirement or capital plan. In addition, the final rule provides that the Board may extend the time for acting on a request for reconsideration, which would allow the Board to request and the firm to submit additional information or delay the effective date of a stress capital buffer requirement, if needed. Finally, as discussed in Section III.B the Board has adopted changes to its stress testing framework to increase transparency and certainty. By providing greater transparency and predictability, these changes also may reduce the likelihood that a request for reconsideration is made.

The capital plan rule provides that a firm that requests reconsideration of an objection to its capital plan may request an informal hearing as part of its request for reconsideration. The

[31] 76 FR 74631 (December 1, 2011).

Board, in its sole discretion, may order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve issues of fact raised in the request for recommendation. The proposal would have extended this option to requests for reconsideration of a stress capital buffer requirement. The Board did not receive comments on the informal hearing procedures provisions as applied to the stress capital buffer requirement. Thus, the final rule provides firms with an opportunity to request an informal hearing as part of their request for reconsideration of either an objection to a capital plan or a stress capital buffer requirement.

F. Capital Plan Resubmission and Circumstances Warranting Recalculation of the Stress Capital Buffer Requirement

The proposal would have maintained the circumstances under which a firm was required to resubmit a capital plan and the process for reviewing a resubmitted capital plan. In particular, the Board could have required a firm to resubmit its capital plan if the Board determines that there has been a material change in the firm's risk profile, financial condition, or corporate structure or if the bank holding company stress scenario(s) used in the firm's most recent capital plan are no longer appropriate for the firm's business model and portfolios, or if changes in financial markets or the macro-economic outlook that could have a material impact on a firm's risk profile and financial condition require the use of updated scenarios (material change). Additionally, a firm would have been required to resubmit its capital plan if it determines there has been or will be a material change since the firm last submitted its capital plan to the Board.

The proposal would have integrated the existing resubmission process with the stress capital buffer requirement by permitting the Board to recalculate a firm's stress capital buffer requirement if the firm chose to or was required to resubmit its capital plan. Under the proposal, the Board would have reviewed a resubmitted capital plan within 75 calendar days after receipt and, at the Board's discretion, provided the firm with an updated stress capital buffer requirement. Upon a determination that a firm has had a material change in its risk profile, the Board could have conducted an updated supervisory stress test and recalculated the firm's stress capital buffer requirement based on the resubmitted capital plan.[32] As with the process for submitting the annual capital plan, the planned capital distributions in the firm's resubmitted capital plan would have been required to be consistent with any capital distribution limitations that would have applied on a pro forma basis over the planning horizon. Any updated stress capital buffer requirement would have been in effect until the firm's updated stress capital buffer requirement from the next annual assessment by the Board became effective (unless the firm experienced another material change prior to that date).

Some commenters supported the inclusion of a process to recalculate a firm's stress capital buffer requirement, but expressed concern about the circumstances under which a stress capital buffer requirement would be recalculated as well as the methodology for recalculation. In particular, some commenters expressed concern regarding the proposed approach of recalculating a firm's stress capital buffer requirement based on a resubmitted capital plan. One commenter argued that recalculation of a stress capital buffer requirement based on a resubmitted plan would discourage a firm from resubmitting a capital plan. Some commenters urged the Board to separate the process for recalculating a stress capital buffer requirement from resubmission of a capital plan, suggesting instead that recalculation of the stress capital buffer requirement be made at the option of the firm or automatically based on information reported on

[32] For this purpose, the planning horizon would have been the nine quarter period beginning on the date after the as-of date of the projections. For instance, if the as-of date of the projections was June 30, 2020, the planning horizon would have extended from July 1, 2020, through September 30, 2022.

the FR Y-14 reports. Other commenters expressed concern regarding the methodology for recalculation, asserting that recalculation based on a new or different stress scenario could produce a significantly different stress capital buffer requirement. Finally, some commenters expressed concerns about the resubmission process generally, including the distribution limitations on firms that resubmit a capital plan as well as the circumstances under which a resubmission would be required.

The final rule adopts the proposed process for recalculating a firm's stress capital buffer requirement based on a resubmitted capital plan.[33] The circumstances that require a firm to resubmit its capital plan may also indicate that its stress capital buffer requirement no longer reflects its risk profile. Accordingly, the automatic distribution limitations that would apply if the firm held capital within its buffer also may not be sufficient. As commenters observed, a firm may resubmit a capital plan for a variety of reasons. Not every change to a firm's capital plan or balance sheet would be significant enough to warrant recalculation of its stress capital buffer requirement. In some cases, a capital plan may be resubmitted based on anticipated changes in the corporate structure or business of the firm, and a stress capital buffer requirement may be more accurately evaluated after consummation of the anticipated change. Accordingly, the final rule provides the Board discretion in determining when and how to recalculate a stress capital buffer requirement based on a resubmitted capital plan. If a firm resubmits its capital plan, the Board will inform the firm of whether its stress capital buffer requirement will be recalculated within 75 days of the capital plan being resubmitted. In response to concerns regarding the restrictions on distributions triggered by a resubmission, as discussed in

[33] The final rule also would maintain the process for reviewing a resubmitted capital plan for a firm subject to the qualitative objection.

Section IV.C., the final rule would simplify and clarify the submission requirements for prior approval requests made as a result of a resubmitted capital plan. The final rule also would maintain the criteria for resubmission of a capital plan based on a material change. These criteria help support an effective capital planning process.

V. Changes to the Capital Rule and Mechanics of Distribution Limitations

Under the capital rule, a firm is subject to restrictions on distributions and discretionary bonus payments if the firm's capital ratios are at or below its minimums plus its capital conservation buffer requirement.[34] For all firms, the capital conservation buffer requirement is composed of CET1 capital and is equal to 2.5 percent of risk-weighted assets, plus any applicable countercyclical capital buffer amount and GSIB surcharge.

To incorporate the stress capital buffer requirement into the capital rule, the proposal would have revised the capital rule to include the stress capital buffer requirement in the capital conservation buffer framework. A firm would have been subject to the most stringent distribution limitation, if any, as determined by the firm's standardized approach capital conservation buffer requirement, the firm's stress leverage buffer requirement and, if applicable, the firm's advanced approaches capital conservation buffer requirement, and the enhanced supplementary leverage ratio standard.[35] A firm's standardized approach capital conservation buffer requirement would have been equal to the sum of: (1) its stress capital buffer requirement as calculated using the standardized approach, (2) as applicable, the firm's GSIB surcharge; and,

[34] See 12 CFR 217.11.

[35] Consistent with the proposal, the final rule does not alter the substance of the buffer applicable to GSIBs under the Board's enhanced supplementary leverage ratio standards. The regulatory language implementing this buffer is revised by the final rule to integrate the enhanced supplementary leverage ratio buffer with the stress capital buffer requirement within the capital rule.

(3) as applicable, the firm's countercyclical capital amount.[36] A firm's advanced approaches capital conservation buffer requirement would have been equal to the sum of: (1) 2.5 percent of risk-weighted assets calculated using the advanced approaches, (2) as applicable, the firm's GSIB surcharge; and, (3) as applicable, the firm's countercyclical capital buffer amount. Similarly, under the proposal, a firm would have compared its leverage buffer to its stress leverage buffer requirement.

Under the proposal, a firm would have been subject to the most stringent distribution limitation as determined by the firm's standardized approach capital conservation buffer requirement, the firm's stress leverage buffer requirement and, if applicable, the firm's advanced approaches capital conservation buffer requirement, and the enhanced supplementary leverage ratio standard. A firm would have determined the maximum amount it could pay in capital distributions and discretionary bonus payments during a given quarter by multiplying the firm's eligible retained income by its applicable payout ratio, if any, as determined under Table 2 to 12 CFR 217.11 of the proposed rule.

Several commenters supported the proposal to separate the standardized approach capital conservation buffer and the advanced approaches capital conservation buffer and to only incorporate the stress capital buffer requirement into the standardized approach capital conservation buffer. Arguments in favor of not incorporating the stress capital buffer requirement into the advanced approaches capital conservation buffer generally focused on the complexity such an approach would add to the rule by combining two different model-based approaches (i.e., the advanced approaches and the stress test). However, some commenters

[36] The existing buffer framework in the capital rule would have remained unchanged for firms not subject to the capital plan rule.

supported applying the stress capital buffer requirement over advanced approaches risk-weighted assets by scaling the stress capital buffer requirement by the ratio of a firm's standardized risk-weighted assets to its advanced approaches risk-weighted assets.

Some commenters argued that the stress capital buffer requirement would remove the need for firms to calculate risk-weighted assets using the advanced approaches because both effectively measured capital needs based on a firm's internal risk-based methodologies. These commenters recommended removal of the advanced approaches from the capital rule altogether, or that the Board narrow the scope of the advanced approaches to only the largest, most systemic firms. Some commenters also supported removing the advanced approaches from the capital rule for reasons unrelated to this rulemaking.

The final rule includes the buffer framework with certain revisions from the proposal. Most notably, the final rule includes a revised definition of eligible retained income and does not include the proposed stress leverage buffer.[37]

As discussed in the proposal, the interaction of the stress capital buffer requirement and a firm's risk-based capital ratios calculated using the advanced approaches would add excessive complexity to the rule, whether through the use of a scaling factor or other calibration adjustment. Consistent with the rationale in the proposal, the final rule does not incorporate the stress capital buffer requirement into the advanced approaches capital conservation buffer.

The Board is not removing the advanced approaches from the capital rule in this final rule. The concerns related to the interaction of the advanced approaches and the stress capital buffer requirement are addressed in the final rule by limiting the application of the stress capital

[37] The revisions to eligible retained income are discussed in greater detail in Section III.A and the stress leverage buffer requirement is discussed in greater detail in Section III.D.

buffer requirement to the standardized approach capital requirements. The Board continues to believe that large and more systemic firms should be subject to more risk-sensitive capital requirements commensurate with their risk profiles.

Some commenters supported the Board's proposal to include any applicable countercyclical capital amount in the capital conservation buffer requirement, noting that it is not redundant with the stress capital buffer requirement, as each addressed different risks independently. Other commenters argued that the stress capital buffer requirement could make the countercyclical capital buffer redundant, and recommended that the Board make only sparing use of the countercyclical capital buffer. Some commenters urged the Board to remove the countercyclical capital buffer from the capital rule, arguing that it was fully redundant with the stress capital buffer requirement due to countercyclical features of the stress tests. Commenters also argued that countercyclical capital requirements could be set more effectively through the stress capital buffer requirement than the countercyclical capital buffer. Commenters also argued that, if the countercyclical capital buffer were retained, any activation of the countercyclical capital buffer should be reflected in the stress testing framework.

Consistent with the proposal, the final rule retains the countercyclical capital buffer as a tool the Board could use to address situations when systemic vulnerabilities are meaningfully above normal. The stress capital buffer requirement is not redundant with the countercyclical capital buffer. The countercyclical capital buffer is a macroprudential tool intended to strengthen the resiliency of financial firms and the financial system, by allowing the Board to raise capital standards when credit growth in the economy becomes excessive. The Board's stress testing scenario design framework is designed to mitigate the inherent procyclicality in the stress test, not to serve as an explicit countercyclical offset to the financial system. As a result, there may be circumstances where the countercyclical capital buffer is the appropriate tool to address systemic vulnerabilities, and it is important to retain this tool as a potential option going forward.

One commenter urged the Board to recognize the ability of long-term debt issued under the Board's Total Loss-Absorbing Capacity (TLAC) rule to absorb losses in the same manner as common equity tier 1 capital. The commenter therefore recommended that firms be permitted to satisfy all or a portion of the stress capital buffer requirement with internal long-term debt or common equity tier 1 capital.

Only a subset of firms subject to the capital plan rule are subject to the TLAC rule—U.S. GSIBs and the U.S. intermediate holding companies of non-U.S. GSIBs—and these firms are among the larger and more systemic firms subject to the capital plan rule. Providing these firms with greater flexibility to satisfy the buffers would be inconsistent with the general principle that larger and more systemic firms should be subject to more stringent and risk-sensitive requirements. In addition, the loss-absorbing capacity of long-term debt issued under the Board's TLAC rule is not identical to the loss-absorbing capacity of CET1 capital as the way in which long-term debt could absorb losses varies by circumstance. As a result, the Board is maintaining the requirement that the standardized approach capital conservation buffer and the advanced approaches capital conservation buffer must be satisfied with common equity tier 1 capital.

Several commenters raised concerns that the stress capital buffer requirement would be redundant with the GSIB surcharge. Some commenters noted that both the stress capital buffer requirement and GSIB surcharge account for risks arising from capital markets activities and for counterparty risks.

One commenter suggested that the Board address the potential double-counting of risks by making the stress capital buffer requirement an alternative to the current capital conservation buffer requirements. Specifically, the commenter suggested that a firm's buffer requirement be the greater of (1) its stress capital buffer requirement, and (2) 2.5 percent, plus any applicable GSIB surcharge and countercyclical capital buffer amount. Other commenters suggested additional similar structures for a firm's buffer requirement. Commenters asked that the Board exclude the GSIB surcharge from the standardized approach capital conservation buffer, pending revisions to the Board's GSIB surcharge rule.

The final rule, consistent with the proposal, establishes the buffer requirement for the standardized approach capital conservation buffer equal to a firm's stress capital buffer requirement, plus any applicable GSIB surcharge and countercyclical capital buffer amount. The stress capital buffer requirement, which will incorporate losses from the global market shock and the large counterparty default component, is not duplicative of the GSIB surcharge. The stress capital buffer requirement is calculated based on each firm's vulnerability to adverse economic or financial market conditions. The global market shock measures the trading mark-to-market losses associated with sudden changes in asset prices, and the large counterparty default scenario component measures the risk of losses due to an unexpected default of the counterparty whose default on all derivatives and securities financing transactions would generate the largest stressed losses for a firm. These components of the supervisory stress test do not capture the potential adverse impact of the failure of a GSIB on the financial system as a whole, which is captured only by the GSIB surcharge.

Several commenters also raised concerns regarding the methodologies used to determine the GSIB surcharge. Some commenters favored the elimination of the GSIB framework's

Method 1 score, while other commenters favored the elimination of the Method 2 score. In addition, commenters raised concerns with specific GSIB indicators' ability to capture systemic risk and recommended changes to the indicators. Several commenters also made recommendations on ways to recalibrate the GSIB surcharge, such as revisiting the calibration of Method 2 in light of post-crisis reforms. Others suggested updates to the GSIB surcharge coefficients and denominators. A commenter also recommended that the Board introduce a more gradated surcharge scale to avoid potential cliff effects. Commenters urged the Board to make changes to the GSIB surcharge methodologies effective concurrently with the effective date of the stress capital buffer requirement.

The Board is not revising the GSIB surcharge rule in connection with the final rule. As noted, the GSIB surcharge is designed to address risks that differ from those addressed by the stress capital buffer requirement. As discussed in the preamble to the final GSIB surcharge rule, the GSIB surcharge, including the amount of the surcharges and the calculation of Method 1 and Method 2 scores, is designed to address the risks to the financial system presented by systemically important firms.

Taken together, the components of a firm's buffer requirements each serve independent functions. Specifically, the stress capital buffer requirement ensures that a firm has sufficient capital to continue to serve as a financial intermediary during stress. The GSIB surcharge ensures that a GSIB internalizes the cost that its failure would have on the broader economy. The countercyclical capital buffer ensures capital when there is an elevated risk of above-normal losses. For these reasons, the stress capital buffer requirement, as adopted in the final rule, serves as an appropriate complement to the other capital buffers and the GSIB surcharges.

The proposal would not have amended the current definitions of “distribution” and “capital distribution” found in the capital rule and capital plan rule, respectively.[38] Unlike the definition of distribution in the capital rule, the definition of capital distribution in the capital plan rule does not provide an exception for distributions accompanied by an offsetting issuance. The broader definition included in the capital plan rule ensures that all distributions, including those offset by issuances, are included in a firm’s capital plan. However, because distributions offset by equivalent issuances within a quarter do not affect a firm’s capital position, this type of distribution is not included in the definition in the capital rule. As discussed in Section IV.C, some commenters raised concerns regarding these differing definitions in the context of their recommendation to eliminate the prior approval requirement to make incremental capital actions. As the final rule eliminates the prior approval requirement, the Board is adopting this aspect of the proposal without modification and will continue to monitor this issue.

VI. Changes to the Stress Test Rules

The proposal would have revised the capital action assumptions in the Board’s supervisory stress test and the company-run stress tests conducted under Regulation YY, in order to harmonize the publicly disclosed supervisory and company-run stress test results with the

[38] Under the capital rule, the definition of distribution includes reductions in tier 1 capital through a repurchase or any other means, except when the institution, in the same quarter as the repurchase, fully replaces the tier 1 instrument by issuing a similar instrument. Under the capital plan rule, a capital distribution means a redemption or repurchase of any debt or equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum regulatory capital ratio, and any similar transaction that the Board determines to be in substance a distribution of capital.

stress capital buffer requirement.[39] The proposal would not have included the four quarter dividend add-on in the required capital actions in the stress test rules.

The Board received several comments on the capital distribution assumptions, which were addressed above in Section III.B.i; however, there were no comments on the proposal to ensure that the capital actions in the company-run stress test rule matched the capital actions in the calculation of the stress capital buffer requirement. Therefore, the final rule adopts changes to the capital action assumptions in the Board's supervisory stress test and company-run stress test to be consistent with one another. [40]

As discussed above in Section III.B.i, the final rule does not include a planned material business plan change (e.g. merger, acquisition, or divestiture) in a firm's stress capital buffer requirement. In order to harmonize the publicly disclosed supervisory and company-run stress test results with the stress capital buffer requirement, the final rule removes the requirement to include issuances in connection with a planned merger or acquisition to the extent that the merger or acquisition is reflected in the covered company's pro forma balance sheet estimates. Consistent with current requirements, the final rule will continue to require a firm to include in its capital plan a discussion of any expected changes to the firm's business plan that are likely to have a material impact on the capital adequacy or liquidity position of the firm. Firms will

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[39] In the proposal, a firm's company-run stress test, would no longer include in their capital action assumptions: (1) actual capital actions for the first quarter of the planning horizon; (2) any common stock dividends; or (3) issuance of common or preferred stock relating to expensed employee compensation. For the first quarter of the planning horizon, firms will include any payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter. The capital action assumptions used in the company-run and supervisory stress tests will not include the four quarters of planned dividends.

[40] The supervisory and company-run stress tests conducted under Regulation YY will not include four quarters of planned dividends.

continue to be expected to include the impact of a material business plan change on the FR Y-14A reports, including the Schedule A – Summary, Schedule C – Regulatory Capital Instruments, and Schedule F – Business Plan Changes.

The proposal would have incorporated the definition of "significant trading activity" into the Board's company-run stress test requirements in order to increase transparency regarding the application of an additional trading and counterparty scenario component.[41] Currently, significant trading activity is defined by reference to the Capital Assessments and Stress Testing report (FR Y-14Q). The FR Y-14Q defines a firm with significant trading activity as any domestic bank holding company or U.S. intermediate holding company that is subject to supervisory stress tests and that (1) has aggregate trading assets and liabilities of $50 billion or more, or aggregate trading assets and liabilities equal to 10 percent or more of total consolidated assets, and (2) is not a "large and noncomplex firm" under the Board's capital plan rule. The proposal would have adopted this FR Y-14 definition of significant trading activity in the stress test rules for the annual company-run stress test. Commenters did not comment on this aspect of the proposal and it is finalized as proposed.

While the Board's scenario design framework was not part of the proposal, commenters raised issues with the severity and plausibility of the supervisory scenarios. Some commenters argued that the Board's scenario design process resulted in scenarios that were implausibly severe and required firms to hold more capital than would be necessary to withstand stressful conditions. Commenters suggested that the Board introduce limits on the overall severity of the severely adverse scenario, as they argue that supervisory scenarios were more severe than historical experience. Another suggestion was to introduce a rule for scenario plausibility,

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[41] See 12 CFR part 252, subpart F.

including modifying the global market shock to make it more realistic and to ensure that the macroeconomic scenario is consistent with the global market shock.

As described in Appendix A to 12 CFR part 252, severely adverse scenarios are designed to be plausible, relevant, and guided in large part by historical experience in severe U.S. recessions.[42] By design, the severity of the scenarios is meant to mimic past recessions and financial crises with the addition of certain salient risks in order to ensure that firms can withstand stress and continue to lend. In addition, the Board may factor in particular risks to the scenario to make appropriate adjustments to the paths of specific economic variables that are historically less typical in order to highlight systemic risks. A comparison of the severity of recent CCAR scenarios to benchmarks in past recessions or financial crises, both domestic and international, suggests that the scenarios used in the 2017 through 2019 CCAR assessments are plausibly severe. As in the current supervisory post-stress capital assessment in CCAR, under the proposal, the supervisory stress test will continue to use a common set of scenarios, models, and assumptions across firms.

Commenters also suggested that the Board enhance the transparency of the models used in the supervisory stress test by publishing model specifications for comment, or publishing its methodology for comment each year. One commenter opposed providing more information about supervisory models or publishing the model specifications for comment. The commenter suggested such publication could lead to firms adopting stress test models that are similar to the supervisory models, potentially causing models to have common weaknesses that create risks to financial stability.

[42] See 12 CFR part 252, Appendix A.

While the Board's methodology for conducting the supervisory stress test was not part of the proposal, the Board received several comments regarding the Board's models and methodology for conducting the supervisory stress test. Many of the comments focused on the assumptions associated with the global market shock and large counterparty default scenario component. These commenters' recommended reflecting the impact of the global market shock in capital deductions, reflecting variation margin in counterparty losses, capping trading losses and associated capital deductions at the total amount of a firm's trading exposure, and eliminating the double-counting of losses between the global market shock and the macroeconomic scenario. Other comments focused on other supervisory models, such as suggesting that the supervisory net income projections should reflect firm-specific considerations, such as tax attributes and that the FR Y-14 should collect credit risk mitigation transactions so that the Federal Reserve could reflect these transactions in its projections. Finally, commenters suggested that the Federal Reserve consider the impact of incorporating the current expected credit loss (CECL) methodology into the supervisory stress test.[43]

Since the Board issued the proposal in 2018, the Board separately has taken steps to respond to these comments. For example, in February 2019, the Board adopted a final stress test policy statement, which reduced the materiality threshold for phasing-in material model changes.[44] Additionally, in order to address the suggestion to reflect the impact of the global market shock on regulatory capital deductions, the Board will begin collecting information regarding this impact on the FR Y-14A starting in CCAR 2020. Similarly, the Board will also

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[43] See ASU 2016-13, "Financial Instruments -- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."

[44] See 12 CFR part 252, Appendix A.

begin collecting more granular information related to tax attributes on the FR Y-14A starting in CCAR 2020, to further understand the impact of tax related items under stress.

Regarding CECL, the Board has met with various affected parties, including firms subject to the supervisory stress test, and has determined to maintain the current modeling framework for loan allowances in its supervisory stress test through 2021.[45] The Board continues to consider how to implement CECL in its stress testing methodology and will continue to seek feedback on the best way to implement CECL in stress testing.

VII. Impact Analysis

The Board analyzed the impact of the final rule on the capital requirements of affected firms. This analysis compared the capital required to avoid limitations on capital distributions under the current framework and under the final rule.[46] In addition, the impact analysis considered the potential effects of the rule on economic activity.

The Board used data from the 2013 to 2019 CCAR exercises to obtain a through-the-cycle view of the impact of the rule.[47] While 2013 to 2019 represents a period of generally favorable economic and financial conditions, capital distributions – a key driver of the impact of the rule relative to current requirements – varied cyclically, rising from a relatively low level in

[45] See Board of Governors of the Federal Reserve System, "Statement on the current expected credit loss methodology (CECL) and stress testing" December 21, 2018, available online at: www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181221b1.pdf.

[46] The analysis made certain simplifying assumptions. For example, the Board assumed the impact of the flat balance sheet assumption on projected losses and revenue in the stress test offset each other but included the impact of the assumption on the denominator of the projected capital ratios.

[47] Firms were subject to a CET1 capital requirement over the entire planning horizon of the supervisory stress test beginning with the 2015 CCAR exercise. For the 2013 and 2014 CCAR exercises, tier 1 common equity capital serves as a proxy for CET1 capital and is broadly similar to CET1 but includes fewer deductions, among other differences. The supervisory stress test began in 2013.

2013 to a high level in 2019. The impact of the rule will also vary through the economic and credit cycle based on the risk profile and planned capital distributions of individual firms, as well as on the specific severely adverse stress scenario used in the supervisory stress test.

Based on data from CCAR 2013 to CCAR 2019, the rule is estimated to result in largely unchanged CET1 capital requirements: CET1 capital requirements are estimated to increase, on average, by $11 billion, a one percent increase from current requirements. As such, viewed through-the-cycle, the rule preserves the current requirements for the highest quality capital. Looking across CCAR years, the impact of the proposal on CET1 capital requirements ranges from a decline of $59 billion to an increase of $78 billion.

The Board expects that the impact of the rule would vary for GSIBs relative to the smaller and less complex firms that are subject to the stress capital buffer requirement. On average, from 2013 to 2019, the rule is expected to lead to an increase in CET1 capital requirements for GSIBs of $46 billion, a seven percent increase in their current aggregate CET1 capital requirement. By contrast, the CET1 capital requirements for firms subject to Category II – IV standards are expected to decrease by $35 billion, a 10 percent decrease relative to their current aggregate requirement. While the less stringent balance sheet and distribution assumptions in the supervisory stress test lower capital requirements for all firms, the increased requirement for GSIBs results from the integration of a stress test-based capital requirement with each firm's GSIB surcharge.[48]

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[48] The fact that the required capital as measured by Board's stress tests typically acts as the most binding capital requirement in the current framework for many GSIBs reduces the impact of incorporating the GSIB surcharge to the stress capital buffer requirement, which is currently not included in the minimum capital standards in the stress tests.

In part due to an elimination of the stress leverage buffer requirement, the rule is estimated to lower aggregate tier 1 capital requirements by $49 billion, based on average CCAR results from 2013 to 2019, a four percent decrease relative to aggregate current tier 1 capital requirements.[49] Modified balance sheet and distribution assumptions in the supervisory stress test also contribute to the decline. On average, the tier 1 capital requirement for GSIBs, the riskiest and most systemically important firms, remains unchanged by the final rule. The tier 1 capital requirements for firms subject to Category II – IV standards is expected to decrease by $49 billion, a 12 percent decrease relative to their current aggregate requirement. Looking across CCAR years, the impact of the rule would range from an aggregate reduction in tier 1 capital requirements of $102 billion to an aggregate increase in tier 1 capital requirements of $77 billion.

As the final rule has differential effects depending on the required form of regulatory capital, the Board studied the effect on overall bank funding costs to provide another view of the impact of the rule. The Board expects that the rule would slightly reduce the yearly dollar funding costs of capital and long-term debt needed to meet requirements. The changes in CET1 and tier 1 capital requirements drive these funding cost impacts.

Firms often maintain "management buffers" of tier 1 and CET1 capital that exceed regulatory requirements. As the final rule significantly changes how stress tests factor into capital requirements, firms may change their approach to management buffers in response to the rule. Such a change could lead to changes in levels of capital that differ from the changes in requirements reported above.

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[49] Common equity tier 1 capital was developed after the financial crisis and consists of the highest quality regulatory capital. Prior to the financial crisis, tier 1 capital, which consists of common equity and non-cumulative perpetual preferred stock, was the main measure of capital adequacy.

The Board examined the impact of the rule on risk sensitivity, as stress losses will determine capital requirements only for firms above the stress capital buffer requirement floor. Combining firm-by-firm data across supervisory stress test exercises from 2013 to 2019, the Board estimated that about half of the observations would have a stress capital buffer requirement above 2.5 percent. In comparison, about 90 percent of the observations in past CCAR exercises, which included the prior capital distribution assumptions and growing balance sheets, experienced capital declines of greater than 2.5 percent.

The Board also assessed the macroeconomic consequences of the final rule using models that consider the benefit of higher amounts of regulatory capital in reducing the frequency of financial crisis versus the cost of reduced lending.[50] Based on the estimated change in average capital requirements through the cycle, the proposal is expected to have little to no impact on the long-run level of GDP.

VIII. Changes to Regulatory Reports

The proposal would have modified the Consolidated Financial Statements for Holding Companies Report (FR Y-9C; OMB: 7100-0128) to collect information regarding the stress capital buffer requirement applicable to a firm and the Capital Assessments and Stress Testing Report (FR Y-14A; OMB No. 7100-0341). Specifically, the proposal would have added new line items to the quarterly FR Y-9C in order to collect information regarding a firm's stress capital buffer requirement, stress leverage buffer requirement, and GSIB surcharge and countercyclical capital buffer amount, as applicable, and information necessary to calculate a

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[50] See Firestone, S., A. Lorenc and B. Ranish, 2019, *An empirical economic assessment of the costs and benefits of bank capital in the United States*, Federal Reserve Bank of St. Louis Review, 101, pp. 203-230; and Basel Committee on Banking Supervision, 2010, *An assessment of the long-term economic impact of stronger capital and liquidity requirements*, white paper.

firm's distribution limitations, including its capital conservation buffer, advanced approaches capital conservation buffer, leverage buffer, eligible retained income, and distributions. The proposal would have also added similar items to the applicable FR Y-14A schedule. This information would enable the Board and the public to identify any distribution limitations and monitor a bank holding company's performance on a quarterly basis and allow the Board to compare a firm's projected capital ratios to expected buffer requirements and implement the proposed evaluation of planned capital actions under the BHC baseline scenario.[51]

One commenter suggested that it was unnecessary to report eligible retained income, maximum payout ratio, maximum payout amount, and distributions and discretionary bonus payments unless the firm is subject to a maximum payout ratio.

The Board is adopting the proposed adjustments to the FR Y-9C, with some modifications to reflect changes made to the final rule. Firms will be required to report all items related to their buffer and potential limitations to provide critical information to the Board and public about the firm's capital adequacy and ability to continue to operate under stress. As the final rule does not include a stress leverage buffer requirement, the corresponding new line items on the FR Y-9C have been removed from the final FR Y-9C forms and instructions. Responses to these items will enable the Board and public to monitor a firm's capital adequacy relative to its requirements. The responses will also ensure that the Board and public can estimate the potential consequences for a firm if it were to undergo a period of stress.

The proposed changes to the FR Y-14A are also being adopted as proposed, with some modifications to reflect changes made to the final rule. Similar to the FR Y-9C, line items

[51] A firm generally will only be required to report this information annually in connection with its capital plan submission.

related to the stress leverage buffer requirement have not been added to the FR Y-14A in the final rule. In addition, the Board has not added items to the FR Y-14A related to buffer requirements that are reported on the FR Y-9C by firms not subject to the capital plan rule, as these items are not applicable to FR Y-14 reporters. The changes to the FR Y-14A reporting forms and instructions are essential to understand a firm's projected capital positions under stress and will help shape the Federal Reserve's evaluation of the firm's capital planning processes.

As described in Section IV above, the final rule provides that, within two business days of receipt of notice of its stress capital buffer requirement, a firm will be required to assess whether its planned capital distributions are consistent with the effective capital distribution limitations that will apply on a pro forma basis under the BHC baseline scenario throughout the fourth through seventh quarters of the planning horizon. In the event of an inconsistency, a firm will be required to reduce the capital distributions in its capital plan to be consistent with such limitations for those quarters of the planning horizon and provide the Board with its final planned capital actions following any such adjustments.[52]

To implement this requirement, a firm will be required to report its capital distributions on the FR Y-14A filed in connection with its initial capital plan on April 5, and in the event of any downward adjustments to its planned capital distributions, resubmit the FR Y-14A summary schedule within two business days of receiving its stress capital buffer requirement, that reflect the stress capital buffer requirement and its reduced planned capital distributions.[53] At the time a

[52] The final rule also permits a firm to reduce its planned capital distributions if the firm's planned capital distributions are consistent with effective capital distribution limitations.

[53] In the event that a firm requests reconsideration of its stress capital buffer requirement, a firm must evaluate its planned capital distributions in light of any modifications to its stress capital buffer requirement. The firm may be required to reduce or permitted to increase its capital distributions depending on any modifications, and must provide the Board with its final planned

firm submits its capital plan and FR Y-14A report as of December 31, the firm will not be aware of its stress capital buffer requirement for the upcoming cycle. For simplicity, the instructions contemplate that the firm will report the stress capital buffer requirement currently in effect, and assume that the stress capital buffer requirement remain constant through the planning horizon. However, the capital plan rule requires the firm's planned capital distributions to be consistent with effective capital distribution limitations in the fourth through seventh quarters of the planning horizon and not the distribution limitations in effect in the prior cycle. Thus, it will be possible for a firm to include planned capital distributions in its FR Y-14A as of December 31 that will exceed those permitted under the previous cycle's capital plan, but be consistent with the capital plan rule because the firm's stress capital buffer requirement declined.

The Board is also making changes to its regulatory reports to reflect the changes to the circumstances in which a firm is required to seek prior approval from the Federal Reserve before making capital distributions in excess of these included in the firm's capital plan. Currently, a firm is required to submit an updated FR Y-14A Schedule C, Regulatory Capital Instruments prior to making any additional capital distributions. As discussed in Section IV.C, the Board is eliminating the prior approval requirement. To reflect these changes in the regulatory reports, a firm will be required to submit an updated FR Y-14A Schedule C, Regulatory Capital Instruments, within 15 days after notice of distributions in excess of planned distributions as required under the capital plan rule. This reporting requirement will allow the Board to continue to monitor a firm's capital distributions while reducing burden.

capital actions reflecting those adjustments. In the event of any adjustment, the firm will be required to file the FR Y-14A to reflect its revised planned capital distributions.

IX. Administrative Law Matters

A. Paperwork Reduction Act

Certain provisions of the final rule contain “collections of information” within the meaning of the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3501-3521). The Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board reviewed the final rule under the authority delegated to the Board by OMB. The Board did not receive any specific comments on the PRA for the FR Y-14 or FR Y-13.

Regarding the proposed changes to the FR Y-9C, one commenter suggested that it was unnecessary for firms subject to the capital plan rule to report eligible retained income, maximum payout ratio, maximum payout amount, and distributions and discretionary bonus payments unless the firm is subject to a maximum payout ratio. As noted above, responses to these items will enable the Board and public to monitor a firm’s capital adequacy relative to its requirements. The responses will also ensure that the Board and public can estimate the potential consequences for a firm if it were to undergo a period of stress.

The final rule contains reporting requirements subject to the PRA. As described further below, the Board is revising the reporting requirements found in section 12 CFR 225.8. Additionally, the Board is revising certain other collections of information to reflect the changes proposed in the proposed rule.

Adopted Revision, With Extension for Three Years, of the Following Information Collections:

(1) *Report title:* Financial Statements for Holding Companies

Agency form number: FR Y-9C; FR Y-9LP; FR Y-9SP; FR Y-9ES; FR Y-9CS.

OMB control number: 7100-0128.

Effective date: December 31, 2020.

Frequency: Quarterly, semiannually, and annually.

Affected public: Businesses or other for-profit.

Respondents: Bank holding companies (BHCs), savings and loan holding companies (SLHCs),[54] securities holding companies (SHCs), and U.S. intermediate holding companies (IHCs) (collectively, holding companies (HCs)).

Estimated number of respondents:

FR Y-9C (non AA HCs) with less than $5 billion in total assets – 155,

FR Y-9C (non AA HCs) with $5 billion or more in total assets – 189,

FR Y-9C (AA HCs) – 19,

FR Y-9LP – 434,

FR Y-9SP – 3,960,

FR Y-9ES – 83,

FR Y-9CS – 236.

Estimated average hours per response:

Reporting

FR Y-9C (non AA HCs) with less than $5 billion in total assets – 40.48,

FR Y-9C (non AA HCs) with $5 billion or more in total assets – 46.45,

FR Y-9C (AA HCs) – 48.59,

FR Y-9LP – 5.27,

[54] An SLHC must file one or more of the FR Y-9 family of reports unless it is: (1) a grandfathered unitary SLHC with primarily commercial assets and thrifts that make up less than 5 percent of its consolidated assets; or (2) a SLHC that primarily holds insurance-related assets and does not otherwise submit financial reports with the SEC pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

FR Y-9SP – 5.40,

FR Y-9ES – 0.50,

FR Y-9CS – 0.50.

Recordkeeping

FR Y-9C (non AA HCs) with less than $5 billion in total assets – 1,

FR Y-9C (non AA HCs) with $5 billion or more in total assets – 1,

FR Y-9C (AA HCs) – 1,

FR Y-9LP – 1,

FR Y-9SP – 0.50,

FR Y-9ES – 0.50,

FR Y-9CS – 0.50.

Estimated annual burden hours:

Reporting

FR Y-9C (non AA HCs) with less than $5 billion in total assets – 25,098,

FR Y-9C (non AA HCs) with $5 billion or more in total assets – 35,116,

FR Y-9C (AA HCs) – 3,693,

FR Y-9LP – 9,149,

FR Y-9SP – 42,768,

FR Y-9ES – 42,

FR Y-9CS – 471.

Recordkeeping

FR Y-9C (non AA HCs) with less than $5 billion in total assets – 620,

FR Y-9C (non AA HCs) with $5 billion or more in total assets – 756, FR Y-9C (AA HCs) – 76,

FR Y-9LP – 1,736,

FR Y-9SP – 3,960,

FR Y-9ES – 42,

FR Y-9CS – 472.

General description of report: The FR Y-9 family of reporting forms continues to be the primary source of financial data on holding companies that examiners rely on in the intervals between on-site inspections. Financial data from these reporting forms are used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate holding company mergers and acquisitions, and to analyze a holding company's overall financial condition to ensure the safety and soundness of its operations. The FR Y-9C, FR Y-9LP, and FR Y-9SP serve as standardized financial statements for the consolidated holding company. The Board requires HCs to provide standardized financial statements to fulfill the Board's statutory obligation to supervise these organizations. The FR Y-9ES is a financial statement for HCs that are Employee Stock Ownership Plans. The Board uses the FR Y-9CS (a free-form supplement) to collect additional information deemed to be critical and needed in an expedited manner. HCs file the FR Y–9C on a quarterly basis, the FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on a schedule that is determined when this supplement is used.

Legal authorization and confidentiality: The Board has the authority to impose the reporting and recordkeeping requirements associated with the FR Y-9 family of reports on BHCs pursuant to section 5 of the Bank Holding Company Act of 1956 (BHC Act) (12 U.S.C. 1844); on SLHCs pursuant to section 10(b)(2) and (3) of the Home Owners' Loan Act (12 U.S.C. 1467a(b)(2) and

(3)), as amended by sections 369(8) and 604(h)(2) of the Dodd-Frank Wall Street and Consumer Protection Act (Dodd-Frank Act); on U.S. IHCs pursuant to section 5 of the BHC Act (12 U.S.C 1844), as well as pursuant to sections 102(a)(1) and 165 of the Dodd-Frank Act (12 U.S.C. 511(a)(1) and 5365); and on securities holding companies pursuant to section 618 of the Dodd-Frank Act (12 U.S.C. 1850a(c)(1)(A)). The obligation to submit the FR Y-9 series of reports, and the recordkeeping requirements set forth in the respective instructions to each report, are mandatory.

With respect to the FR Y-9C report, Schedule HI's data item 7(g) "FDIC deposit insurance assessments," Schedule HC-P's data item 7(a) "Representation and warranty reserves for 1-4 family residential mortgage loans sold to U.S. government agencies and government sponsored agencies," and Schedule HC-P's data item 7(b) "Representation and warranty reserves for 1-4 family residential mortgage loans sold to other parties" are considered confidential commercial and financial information. Such treatment is appropriate under exemption 4 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(4)) because these data items reflect commercial and financial information that is both customarily and actually treated as private by the submitter, and which the Board has previously assured submitters will be treated as confidential. It also appears that disclosing these data items may reveal confidential examination and supervisory information, and in such instances, this information would also be withheld pursuant to exemption 8 of the FOIA (5 U.S.C. 552(b)(8)), which protects information related to the supervision or examination of a regulated financial institution.

In addition, for both the FR Y-9C report and the FR Y-9SP report, Schedule HC's memorandum item 2.b., the name and email address of the external auditing firm's engagement partner, is considered confidential commercial information and protected by exemption 4 of the

FOIA (5 U.S.C. 552(b)(4)) if the identity of the engagement partner is treated as private information by HCs. The Board has assured respondents that this information will be treated as confidential since the collection of this data item was proposed in 2004.

Aside from the data items described above, the remaining data items on the FR Y-9C report and the FR Y-9SP report are generally not accorded confidential treatment. The data items collected on FR Y-9LP, FR Y-9ES, and FR Y-9CS reports, are also generally not accorded confidential treatment. As provided in the Board's Rules Regarding Availability of Information (12 CFR part 261), however, a respondent may request confidential treatment for any data items the respondent believes should be withheld pursuant to a FOIA exemption. The Board will review any such request to determine if confidential treatment is appropriate, and will inform the respondent if the request for confidential treatment has been denied.

To the extent the instructions to the FR Y-9C, FR Y-9LP, FR Y-9SP, and FR Y-9ES reports each respectively direct the financial institution to retain the workpapers and related materials used in preparation of each report, such material would only be obtained by the Board as part of the examination or supervision of the financial institution. Accordingly, such information is considered confidential pursuant to exemption 8 of the FOIA (5 U.S.C. 552(b)(8)). In addition, the workpapers and related materials may also be protected by exemption 4 of the FOIA, to the extent such financial information is treated as confidential by the respondent (5 U.S.C. 552(b)(4)).

Current actions: The final rule will modify the FR Y-9C for holding companies subject to the capital plan rule in order to collect information regarding a firm's stress capital buffer requirement, GSIB surcharge, countercyclical capital buffer amount, as applicable, and any applicable distribution limitations under the regulatory capital rule. Specifically, the final rule will add new line items to the FR Y-9C Schedule HC-R Part I to collect the following information from holding companies subject to the capital plan rule: (1) the firm's capital conservation buffer requirements (including its standardized approach capital conservation buffer requirement and the advanced approaches capital conservation buffer requirement) and leverage buffer requirement; (2) the firm's capital conservation buffer, advanced approaches capital conservation buffer, and, as applicable, leverage buffer as of the preceding quarter-end, which is the difference between the firm's relevant capital ratio and the relevant minimum requirement; and (3) information needed to calculate the firm's maximum payout amount, including the firm's planned total capital distributions, eligible retained income, and maximum payout ratio. The new line items will apply to top-tier holding companies subject to the Board's capital plan rule (BHCs and IHCs with total consolidated assets of $100 billion or more), for a total of 39 of the existing FR Y-9C respondents. The Board estimates that revisions to the FR Y-9 would increase the estimated average hours per response for FR Y-9C (non AA HCs) with $5 billion or more in total assets filers by 0.11 hours and FR Y-9C (AA HCs) filers by 1 hour. The Board estimates that revisions to the FR Y-9 would increase the estimated annual burden by 159 hours. The draft reporting form and instructions for the FR Y-9C are available at https://www.federalreserve.gov/apps/reportforms/review.aspx.

(2) *Report title:* Capital Assessments and Stress Testing.

Agency form number: FR Y-14A/Q/M.

OMB control number: 7100-0341.

Effective date: The revisions are effective with the December 31, 2020, as-of date, except for the revisions to FR Y-14A, Schedule C, which are effective when the final rule goes into effect.

Frequency: Annually, quarterly, and monthly.

Affected public: Businesses or other for-profit.

Respondents: These collections of information are applicable to bank holding companies (BHCs), U.S. intermediate holding companies (IHCs), and savings and loan holding companies (SLHCs)[55] with $100 billion or more in total consolidated assets, as based on: (i) the average of the firm's total consolidated assets in the four most recent quarters as reported quarterly on the firm's Consolidated Financial Statements for Holding Companies (FR Y-9C); or (ii) if the firm has not filed an FR Y-9C for each of the most recent four quarters, then the average of the firm's total consolidated assets in the most recent consecutive quarters as reported quarterly on the firm's FR Y-9Cs. Reporting is required as of the first day of the quarter immediately following the quarter in which the respondent meets this asset threshold, unless otherwise directed by the Board.

[55] SLHCs with $100 billion or more in total consolidated assets become members of the FR Y-14Q and FR Y-14M panels effective June 30, 2020, and the FR Y-14A panel effective December 31, 2020. See 84 FR 59032 (November 1, 2019).

Estimated number of respondents: FR Y-14A/Q – 36; FR Y-14M – 34.[56]

Estimated average hours per response:

FR Y-14A – 1,085,

FR Y-14Q – 1,920,

FR Y-14M – 1,072,

FR Y-14 Ongoing Automation Revisions – 480,

FR Y-14 Attestation – 2,560.

Estimated annual burden hours:

FR Y-14A – 39,060,

FR Y-14Q – 276,480,

FR Y-14M – 437,376,

FR Y-14 Ongoing Automation Revisions – 17,280,

FR Y-14 Attestation – 33,280.

General description of report: This family of information collections is composed of the following three reports:

The FR Y-14A collects quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.[57]

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[56] The estimated number of respondents for the FR Y-14M is lower than for the FR Y-14Q and FR Y-14A because, in recent years, certain respondents to the FR Y-14A and FR Y-14Q have not met the materiality thresholds to report the FR Y-14M due to their lack of mortgage and credit activities. The Board expects this situation to continue for the foreseeable future.

[57] On October 10, 2019, the Board issued a final rule that eliminated the requirement for firms subject to Category IV standards to conduct and publicly disclose the results of a company-run stress test. See 84 FR 59032 (Nov. 1, 2019). That final rule maintained the existing FR Y-14

The quarterly FR Y-14Q collects granular data on various asset classes, including loans, securities, trading assets, and PPNR for the reporting period.

The monthly FR Y-14M is comprised of three retail portfolio- and loan-level schedules, and one detailed address-matching schedule to supplement two of the portfolio and loan-level schedules.

The data collected through the FR Y-14A/Q/M reports provide the Board with the information needed to help ensure that large firms have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business focus, activities, and resulting risk exposures. The FR Y-14 reports are used to support the Board's annual Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test (DFAST) exercises, which complement other Board supervisory efforts aimed at enhancing the continued viability of large firms, including continuous monitoring of firms' planning and management of liquidity and funding resources, as well as regular assessments of credit, market and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of respondent financial institutions. Respondent firms are currently required to complete and submit up to 17 filings each year: one annual FR Y-14A filing, four quarterly FR Y-14Q filings, and 12 monthly FR Y-14M filings. Compliance with the information collection is mandatory.

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substantive reporting requirements for these firms in order to provide the Board with the data it needs to conduct supervisory stress testing and inform the Board's ongoing monitoring and supervision of its supervised firms. However, as noted in the final rule, the Board intends to provide greater flexibility to banking organizations subject to Category IV standards in developing their annual capital plans and consider further change to the FR Y-14 forms as part of a separate proposal. See 84 FR 59032, 59063.

Legal authorization and confidentiality: The Board has the authority to require BHCs file the FR Y-14 reports pursuant to section 5(c) of the BHC Act (12 U.S.C. 1844(c)), and pursuant to section 165(i) of the Dodd-Frank Act (12 U.S.C. 5365(i)), as amended by section 401(a) and (e) of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).[58] The Board has authority to require SLHCs file the FR Y-14 reports pursuant to section 10(b) of the Home Owners' Loan Act (12 U.S.C. 1467a(b)), as amended by section 369(8) and 604(h)(2) of the Dodd-Frank Act. Lastly, the Board has authority to require IHCs file the FR Y-14 reports pursuant to section 5 of the BHC Act (12 U.S.C 1844), as well as pursuant to sections 102(a)(1) and 165 of the Dodd-Frank Act (12 U.S.C. 5311(a)(1) and 5365).[59] In addition, section 401(g) of EGRRCPA (12 U.S.C. 5365) note, provides that the Board has the authority to establish enhanced prudential standards for foreign banking organizations with total consolidated assets of $100 billion or more, and clarifies that nothing in section 401 "shall be construed to affect the legal effect of the final rule of the Board ... entitled 'Enhanced Prudential Standard for [BHCs] and Foreign Banking Organizations' (79 FR 17240 (March 27, 2014)), as applied to foreign

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[58] Pub. L. No. 115-174, Title IV § 401(a) and (e), 132 Stat. 1296, 1356-59 (2018).

[59] Section 165(b)(2) of the Dodd-Frank Act, 12 U.S.C. § 5365(b)(2), refers to "foreign-based bank holding company." Section 102(a)(1) of the Dodd-Frank Act, 12 U.S.C. § 5311(a)(1), defines "bank holding company" for purposes of Title I of the Dodd-Frank Act to include foreign banking organizations that are treated as bank holding companies under section 8(a) of the International Banking Act of 1978, 12 U.S.C. § 3106(a). The Board has required, pursuant to section 165(b)(1)(B)(iv) of the Dodd-Frank Act, 12 U.S.C. § 5365(b)(1)(B)(iv), certain foreign banking organizations subject to section 165 of the Dodd-Frank Act to form U.S. intermediate holding companies. Accordingly, the parent foreign-based organization of a U.S. IHC is treated as a BHC for purposes of the BHC Act and section 165 of the Dodd-Frank Act. Because Section 5(c) of the BHC Act authorizes the Board to require reports from subsidiaries of BHCs, section 5(c) provides additional authority to require U.S. IHCs to report the information contained in the FR Y-14 reports.

banking organizations with total consolidated assets equal to or greater than $100 million." [60] The information reported in the FR Y-14 reports is collected as part of the Board's supervisory process, and therefore, such information is afforded confidential treatment pursuant to exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, confidential commercial or financial information, which a submitter actually and customarily treats as private, and which has been provided pursuant to an express assurance of confidentiality by the Board, is considered exempt from disclosure under exemption 4 of the FOIA (5 U.S.C. 552(b)(4).

Current actions: To implement the reporting requirements of the final rule, the Board revised the FR Y-14A report to in order to collect information regarding a firm's capital conservation buffer requirements (including the stress capital buffer requirement) and any applicable distribution limitations under the regulatory capital rule. Specifically, the Board revised the FR Y-14A, Schedule A.1.d (Capital) report to collect the following items under firm baseline conditions: (1) The firm's capital conservation buffer requirement and, as applicable, leverage buffer requirement for each quarter of the planning horizon; (2) the firm's capital conservation buffer and, as applicable, leverage buffer as of the preceding quarter-end for each quarter of the planning horizon, which is the difference between the firm's relevant capital ratio and the relevant minimum requirement; and (3) information needed to calculate the firm's maximum payout amount, including the firm's planned total capital distributions, eligible retained income, and maximum payout ratio for each quarter of the planning horizon. Finally, to align with the final rule, the Board has revised the FR Y-14A instructions to require a firm to submit an

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[60] The Board's Final Rule referenced in section 401(g) of EGRRCPA specifically stated that the Board would require IHCs to file the FR Y-14 reports. See 79 Fed. Reg. 17240, 17304 (March 27, 2014).

updated FR Y-14A, Schedule C (Regulatory Capital Instruments), within 15 days after notice of distributions in excess of planned distributions as required under the capital plan rule. The Board estimates that revisions to the FR Y-14 would increase the estimated average hours per response for FR Y-14A filers by 20 hours. The Board estimates that revisions to the FR Y-14 would increase the estimated annual burden by 720 hours. The draft reporting form and instructions for the FR Y-14A are available at https://www.federalreserve.gov/apps/reportforms/review.aspx.

(3) *Title of information collection:* Reporting and Recordkeeping Requirements Associated with Regulation Y (Capital Plans).

Agency form number: FR Y-13.

OMB control number: 7100-0342.

Effective date: Effective date of the final rule.

Frequency: Annually.

Affected public: Businesses or other for-profit.

Respondents: BHCs and IHCs.

Estimated number of respondents:

Reporting

Section 225.8(e)(1)(ii) – 34.

Section 225.8(e)(3) – 25.

Section 225.8(e)(4) – 10.

Section 225.8(h)(2)(ii)(B) – 2.

Section 225.8(j) – 2.

Sections 225.8(k)(1) and (2) – 3.

Section 225.8(k)(4) – 2.

Recordkeeping

Section 225.8(e)(1)(i) – 34.

Section 225.8(e)(1)(iii) – 34.

Estimated average hours per response:

Reporting[61]

Section 225.8(e)(1)(ii) – 80.

Section 225.8(e)(3) – 1,005.

Section 225.8(e)(4) – 100.

Section 225.8(h)(2)(ii)(B) – 2.

Section 225.8(j) – 16.

Sections 225.8(k)(1) and (2) – 100.

Section 225.8(k)(4) – 16.

Recordkeeping

Section 225.8(e)(1)(i) – 8,920.

Section 225.8(e)(1)(iii) – 100.

Estimated annual burden hours:

Reporting

Section 225.8(e)(1)(ii) – 2,720.

Section 225.8(e)(3) – 25,125.

Section 225.8(e)(4) – 1,000.

Section 225.8(h)(2)(ii)(B) – 4.

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[61] The reporting requirement in section 225.8(l) is identical to a reporting requirement in the FR Y-14A. The burden associated with this requirement is accounted for in the burden estimate for the FR Y-14 information collection.

Section 225.8(j) – 32.

Sections 225.8(k)(1) and (2) – 300.

Section 225.8(k)(4) – 32.

Recordkeeping

Section 225.8(e)(1)(i) – 303,280.

Section 225.8(e)(1)(iii) – 3,400.

General description of report: Regulation Y (12 CFR Part 225) requires large bank holding companies (BHCs) and U.S. intermediate holding companies (IHCs) to submit capital plans to the Federal Reserve on an annual basis and to request prior approval from the Federal Reserve under certain circumstances before making a capital distribution.

Legal authorization and confidentiality: Section 616(a) of the Dodd-Frank Act amended section 5(b) of the Bank Holding Company Act of 1956 (BHC Act) (12 U.S.C. 1844(b)) to specifically authorize the Board to issue regulations and orders relating to capital requirements for BHCs. The Board is also authorized to collect and require reports from BHCs pursuant to section 5(c) of the BHC Act (12 U.S.C. 1844(c)). Additionally, the Board's rulemaking authority for the information collection and disclosure requirements associated with the FR Y-13 is found in sections 908 and 910 of the International Lending Supervision Act of 1983, as amended (12 U.S.C. 3907 and 3909). Additional support for FR Y-13 is found in sections 165 and 166 of the Dodd-Frank Act (12 U.S.C. 5365 and 5366).[62] The obligation to respond to this information collection is mandatory.

[62] Section 165 requires the Board to impose enhances prudential standards on large BHCs, including stress testing requirements; enhanced capital, liquidity, and risk management requirements; and a requirement to establish a risk committee. Section 166 requires the Board to impose early remediation requirements on large BHCs under which a large BHC experiencing

The capital plan information submitted by the covered BHC will consist of confidential and proprietary modeling information and highly sensitive business plans, such as acquisition plans submitted to the Board for approval. Therefore, it appears the information will be subject to withholding under exemption 4 of the Freedom of Information Act (5 U.S.C. 552(b)(4)).

Current actions: The final rule modifies the process by which a firm determines the final planned capital distributions included in its capital plan. In addition, under certain conditions, the final rule removes the requirement for a firm to request prior approval to make distributions that exceed the amount included in its capital plan. The final rule also modifies the timeline and procedures related to a firm's stress capital buffer requirement, requests for reconsideration, and capital plan resubmissions. The Board estimates that response to notice; adjustments to planned capital distributions (reporting) (225.8(h)(2)(ii)) would be 2 hours per response. The Board estimates that revisions to the FR Y-13 would decrease the estimated annual burden by 2,028 hours.

B. Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) generally requires that, in connection with a final rulemaking, an agency prepare and make available for public comment a final regulatory flexibility analysis describing the impact of the proposed rule on small entities.[63] However, a final regulatory flexibility analysis is not required if the agency certifies that the final rule will not have a significant economic impact on a substantial number of small entities. The Small Business Administration (SBA) has defined "small entities" to include banking organizations

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financial distress must take specific remedial actions in order to minimize the probability that the company will become insolvent and to minimize the potential harm of such insolvency the United States.

[63] 5 U.S.C. 601 *et. seq*.

with total assets of less than or equal to $600 million that are independently owned and operated or owned by a holding company with less than or equal to $600 million in total assets.[64] For the reasons described below and under section 605(b) of the RFA, the Board certifies that the final rule will not have a significant economic impact on a substantial number of small entities. As of December 31, 2019, there were 2,799 bank holding companies, 171 savings and loan holding companies, and 497 state member banks that would fit the SBA's current definition of "small entity" for purposes of the RFA.

In connection with the proposed rule, the Board stated that it did not believe the proposed rule would have a significant economic impact on a substantial number of small entities. Nevertheless, the Board published and invited comment on an initial regulatory flexibility analysis of the proposed rule. No comments were received on the initial regulatory flexibility analysis.

The Board is finalizing amendments to Regulations Q,[65] Y,[66] and YY[67] that would affect the regulatory requirements that apply to bank holding companies with total consolidated assets of $50 billion or more, any nonbank financial company supervised by the Board that becomes subject to the capital planning requirements pursuant to a rule or order of the Board, and to U.S. intermediate holding companies established pursuant to Regulation YY. The reasons and

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[64] See 13 CFR 121.201. Effective August 19, 2019, the Small Business Administration revised the size standards for banking organizations to $600 million in assets from $550 million in assets. See 84 FR 34261 (July 18, 2019). Consistent with the General Principles of Affiliation in 13 CFR 121.103, the Board counts the assets of all domestic and foreign affiliates when determining if the Board should classify a Board-supervised institution as a small entity.

[65] See 12 CFR part 217.

[66] See 12 CFR part 225.

[67] See 12 CFR part 252.

justification for the final rule are described above in more detail in this SUPPLEMENTARY INFORMATION.

The Board has considered whether to conduct a final regulatory flexibility analysis in connection with this final rule. However, the assets of institutions subject to this final rule substantially exceed the $600 million asset threshold under which a banking organization is considered a "small entity" under SBA regulations. Because the final rule is not likely to apply to any depository institution or company with assets of $600 million or less, it is not expected to apply to any small entity for purposes of the RFA. The Board does not believe that the final rule duplicates, overlaps, or conflicts with any other Federal rules. In light of the foregoing, the Board certifies that the final rule will not have a significant economic impact on a substantial number of small entities supervised.

C. Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the proposed rule in a simple and straightforward manner, and invites comment on the use of plain language.

For example:

- Have we organized the material to suit your needs? If not, how could the rule be more clearly stated?
- Are the requirements in the rule clearly stated? If not, how could the rule be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?

- Will a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes will make the regulation easier to understand?
- Will more, but shorter, sections be better? If so, which sections should be changed?
- What else could we do to make the regulation easier to understand?

List of Subjects

12 CFR Part 217

Administrative practice and procedure, Banks, Banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

12 CFR Part 225

Administrative practice and procedure, Banks, Banking, Capital planning, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

Authority and Issuance

For the reasons stated in the Supplementary Information, the Board of Governors of the Federal Reserve System amends 12 CFR chapter II as follows:

PART 217—CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS (REGULATION Q)

1. The authority citation for part 217 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321-338a, 481-486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p-1, 1831w, 1835, 1844(b), 1851, 3904, 3906-3909, 4808, 5365, 5368, 5371.

2. Section 217.11 is revised to read as follows:

§217.11 Capital conservation buffer, countercyclical capital buffer amount, and GSIB surcharge.

(a) *Capital conservation buffer*.

(1) *Composition of the capital conservation buffer*. The capital conservation buffer is composed solely of common equity tier 1 capital.

(2) *Definitions*. For purposes of this section, the following definitions apply:

(i) *Eligible retained income.* (A) The eligible retained income of a Board-regulated institution is the Board-regulated institution's net income, calculated in accordance with the instructions to the Call Report or the FR Y-9C, as applicable, for the four calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income.

(B) Notwithstanding paragraph (a)(2)(i)(A) of this section, the eligible retained income of a Board-regulation institution subject to 12 CFR 225.8 is the average of the Board-regulated institution's net income, calculated in accordance with the instructions to the FR Y-9C for the four calendar quarters preceding the current calendar quarter, if:

(*1)* The Board-regulated institution is subject to a maximum payout ratio determined by its standardized approach capital conservation buffer under paragraph (c)(1)(ii) of this section; and

(2) The Board-regulated institution's standardized approach capital conservation buffer is greater than the sum of:

(*i)* 2.5 percent;

(*ii)* Any applicable countercyclical capital buffer amount calculated in accordance with paragraph (b) of this section; and (*iii)* Any applicable GSIB surcharge calculated in accordance with paragraph (d) of this section.

(ii) *Maximum payout amount.* A Board-regulated institution's maximum payout amount for the current calendar quarter is equal to the Board-regulated institution's eligible retained income, multiplied by its maximum payout ratio.

(iii) *Maximum payout ratio.* The maximum payout ratio is the percentage of eligible retained income that a Board-regulated institution can pay out in the form of distributions and discretionary bonus payments during the current calendar quarter. For a Board-regulated institution that is not subject to 12 CFR 225.8, the maximum payout ratio is determined by the Board-regulated institution's capital conservation buffer, calculated as of the last day of the previous calendar quarter, as set forth in Table 1 to § 217.11. For a Board-regulated institution that is subject to 12 CFR 225.8, the maximum payout ratio is determined under paragraph (c)(1)(ii) of this section.

(iv) *Private sector credit exposure.* Private sector credit exposure means an exposure to a company or an individual that is not an exposure to a sovereign, the Bank for International Settlements, the European Central Bank, the European Commission, the European Stability Mechanism, the European Financial Stability Facility, the International Monetary Fund, a MDB, a PSE, or a GSE.

(v) *Leverage buffer requirement*. A bank holding company's leverage buffer requirement is 2.0 percent.

(vi) *Stress capital buffer requirement*. A bank holding company's stress capital buffer requirement is the stress capital buffer requirement determined under 12 CFR 225.8.

(3) *Calculation of capital conservation buffer.*

(i) A Board-regulated institution that is not subject to 12 CFR 225.8 has a capital conservation buffer equal to the lowest of the following ratios, calculated as of the last day of the previous calendar quarter:

(A) The Board-regulated institution's common equity tier 1 capital ratio minus the Board-regulated institution's minimum common equity tier 1 capital ratio requirement under § 217.10;

(B) The Board-regulated institution's tier 1 capital ratio minus the Board-regulated institution's minimum tier 1 capital ratio requirement under § 217.10; and

(C) The Board-regulated institution's total capital ratio minus the Board-regulated institution's minimum total capital ratio requirement under § 217.10; or

(ii) Notwithstanding paragraphs (a)(3)(i)(A)-(C) of this section, if a Board-regulated institution's common equity tier 1, tier 1 or total capital ratio is less than or equal to the Board-regulated institution's minimum common equity tier 1, tier 1 or total capital ratio requirement under § 217.10, respectively, the Board-regulated institution's capital conservation buffer is zero.

(4) *Limits on distributions and discretionary bonus payments.*

(i) A Board-regulated institution that is not subject 12 CFR 225.8 shall not make distributions or discretionary bonus payments or create an obligation to make such distributions or payments during the current calendar quarter that, in the aggregate, exceed its maximum payout amount.

(ii) A Board-regulated institution that is not subject 12 CFR 225.8 and that has a capital conservation buffer that is greater than 2.5 percent plus 100 percent of its applicable countercyclical capital buffer amount in accordance with paragraph (b) of this section is not subject to a maximum payout amount under paragraph (a)(2)(ii) of this section.

(iii) *Negative eligible retained income.* Except as provided in paragraph (a)(4)(iv) of this section, a Board-regulated institution that is not subject to 12 CFR 225.8 may not make distributions or discretionary bonus payments during the current calendar quarter if the Board-regulated institution's:

(A) Eligible retained income is negative; and

(B) Capital conservation buffer was less than 2.5 percent as of the end of the previous calendar quarter.

(iv) *Prior approval.* Notwithstanding the limitations in paragraphs (a)(4)(i) through (a)(4)(iii) of this section, the Board may permit a Board-regulated institution that is not subject to 12 CFR 225.8 to make a distribution or discretionary bonus payment upon a request of the Board-regulated institution, if the Board determines that the distribution or discretionary bonus payment would not be contrary to the purposes of this section, or to the safety and soundness of the Board-regulated institution. In making such a determination, the Board will consider the nature and extent of the request and the particular circumstances giving rise to the request.

TABLE 1 TO § 217.11—CALCULATION OF MAXIMUM PAYOUT AMOUNT

Capital conservation buffer	**Maximum payout ratio**
Greater than 2.5 percent plus 100 percent of the Board-regulated institution's applicable countercyclical capital buffer amount	No payout ratio limitation applies.
Less than or equal to 2.5 percent plus 100 percent of the Board-regulated institution's applicable countercyclical capital buffer amount, *and* greater than 1.875 percent plus 75 percent of the Board-regulated institution's applicable countercyclical capital buffer amount	60 percent.
Less than or equal to 1.875 percent plus 75 percent of the Board-regulated institution's applicable countercyclical capital buffer amount, *and* greater than 1.25 percent plus 50 percent of the Board-regulated institution's applicable countercyclical capital buffer amount	40 percent.

Less than or equal to 1.25 percent plus 50 percent of the Board-regulated institution's applicable countercyclical capital buffer amount *and* greater than 0.625 percent plus 25 percent of the Board-regulated institution's applicable countercyclical capital buffer amount	20 percent.
Less than or equal to 0.625 percent plus 25 percent of the Board-regulated institution's applicable countercyclical capital buffer amount	0 percent.

(v) *Other limitations on distributions.* Additional limitations on distributions may apply under 12 CFR 225.4 and 12 CFR 263.202 to a Board-regulated institution that is not subject to 12 CFR 225.8.

(b) *Countercyclical capital buffer amount.*

(1) *General.* An advanced approaches Board-regulated institution or a Category III Board-regulated institution must calculate a countercyclical capital buffer amount in accordance with this paragraph (b) for purposes of determining its maximum payout ratio under Table 1 and, if applicable, Table 2 to § 217.11.

(i) *Extension of capital conservation buffer.* The countercyclical capital buffer amount is an extension of the capital conservation buffer as described in paragraphs (a) or (c) of this section, as applicable.

(ii) *Amount.* An advanced approaches Board-regulated institution or a Category III Board-regulated institution has a countercyclical capital buffer amount determined by calculating the weighted average of the countercyclical capital buffer amounts established for the national jurisdictions where the Board-regulated institution's private sector credit exposures are located, as specified in paragraphs (b)(2) and (b)(3) of this section.

(iii) *Weighting.* The weight assigned to a jurisdiction's countercyclical capital buffer amount is calculated by dividing the total risk-weighted assets for the Board-regulated institution's private sector credit exposures located in the jurisdiction by the total risk-weighted assets for all of the Board-regulated institution's private sector credit exposures. The methodology a Board-regulated institution uses for determining risk-weighted assets for purposes of this paragraph (b) must be the methodology that determines its risk-based capital ratios under § 217.10. Notwithstanding the previous sentence, the risk-weighted asset amount for a private sector credit exposure that is a covered position under subpart F of this part is its specific risk add-on as determined under § 217.210 multiplied by 12.5.

(iv) *Location.*

(A) Except as provided in paragraphs (b)(1)(iv)(B) and (b)(1)(iv)(C) of this section, the location of a private sector credit exposure is the national jurisdiction where the borrower is located (that is, where it is incorporated, chartered, or similarly established or, if the borrower is an individual, where the borrower resides).

(B) If, in accordance with subparts D or E of this part, the Board-regulated institution has assigned to a private sector credit exposure a risk weight associated with a protection provider on a guarantee or credit derivative, the location of the exposure is the national jurisdiction where the protection provider is located.

(C) The location of a securitization exposure is the location of the underlying exposures, or, if the underlying exposures are located in more than one national jurisdiction, the national jurisdiction where the underlying exposures with the largest aggregate unpaid principal balance are located. For purposes of this paragraph (b), the location of an underlying exposure shall be the location of the borrower, determined consistent with paragraph (b)(1)(iv)(A) of this section.

(2) *Countercyclical capital buffer amount for credit exposures in the United States—*

(i) *Initial countercyclical capital buffer amount with respect to credit exposures in the United States.* The initial countercyclical capital buffer amount in the United States is zero.

(ii) *Adjustment of the countercyclical capital buffer amount.* The Board will adjust the countercyclical capital buffer amount for credit exposures in the United States in accordance with applicable law.[1]

(iii) *Range of countercyclical capital buffer amount.* The Board will adjust the countercyclical capital buffer amount for credit exposures in the United States between zero percent and 2.5 percent of risk-weighted assets.

(iv) *Adjustment determination.* The Board will base its decision to adjust the countercyclical capital buffer amount under this section on a range of macroeconomic, financial, and supervisory information indicating an increase in systemic risk including, but not limited to, the ratio of credit to gross domestic product, a variety of asset prices, other factors indicative of relative credit and liquidity expansion or contraction, funding spreads, credit condition surveys, indices based on credit default swap spreads, options implied volatility, and measures of systemic risk.

(v) *Effective date of adjusted countercyclical capital buffer amount.*

(A) *Increase adjustment.* A determination by the Board under paragraph (b)(2)(ii) of this section to increase the countercyclical capital buffer amount will be effective 12 months from the date of announcement, unless the Board establishes an

[1] The Board expects that any adjustment will be based on a determination made jointly by the Board, OCC, and FDIC.

earlier effective date and includes a statement articulating the reasons for the earlier effective date.

(B) *Decrease adjustment.* A determination by the Board to decrease the established countercyclical capital buffer amount under paragraph (b)(2)(ii) of this section will be effective on the day following announcement of the final determination or the earliest date permissible under applicable law or regulation, whichever is later.

(vi) *Twelve month sunset.* The countercyclical capital buffer amount will return to zero percent 12 months after the effective date that the adjusted countercyclical capital buffer amount is announced, unless the Board announces a decision to maintain the adjusted countercyclical capital buffer amount or adjust it again before the expiration of the 12-month period.

(3) *Countercyclical capital buffer amount for foreign jurisdictions.* The Board will adjust the countercyclical capital buffer amount for private sector credit exposures to reflect decisions made by foreign jurisdictions consistent with due process requirements described in paragraph (b)(2) of this section.

(c) *Calculation of buffers for Board-regulated institutions subject to 12 CFR 225.8.* (1) *Limits on distributions and discretionary bonus payments.* (i) A Board-regulated institution that is subject to 12 CFR 225.8 shall not make distributions or discretionary bonus payments or create an obligation to make such distributions or payments during the current calendar quarter that, in the aggregate, exceed its maximum payout amount.

(ii) *Maximum payout ratio*. The maximum payout ratio of a Board-regulated institution that is subject to 12 CFR 225.8 is the lowest of the payout ratios determined by its standardized approach capital conservation buffer; if applicable, advanced approaches capital conservation buffer; and, if applicable, leverage buffer; as set forth in Table 2 to § 217.11.

(iii) *Capital conservation buffer requirements*. A Board-regulated institution that is subject to 12 CFR 225.8 has:

(A) A standardized approach capital conservation buffer requirement equal to its stress capital buffer requirement plus its applicable countercyclical capital buffer amount in accordance with paragraph (b) of this section plus its applicable GSIB surcharge in accordance with paragraph (d) of this section; and

(B) If the Board-regulated institution calculates risk-weighted assets under subpart E of this part, an advanced approaches capital conservation buffer requirement equal to 2.5 percent plus the Board-regulated institution's countercyclical capital buffer amount in accordance with paragraph (b) of this section plus its applicable GSIB surcharge in accordance with paragraph (d) of this section.

(iv) *No maximum payout amount limitation*. A Board-regulated institution that is subject to 12 CFR 225.8 is not subject to a maximum payout amount under paragraph (a)(2)(ii) of this section if it has:

(A) A standardized approach capital conservation buffer, calculated under paragraph (c)(2) of this section, that is greater than its standardized approach capital conservation buffer requirement calculated under paragraph (c)(1)(iii)(A) of this section;

(B) If applicable, an advanced approaches capital conservation buffer, calculated under paragraph (c)(3) of this section, that is greater than the Board-regulated institution's advanced approaches capital conservation buffer requirement calculated under paragraph (c)(1)(iii)(B) of this section; and

(C) If applicable, a leverage buffer, calculated under paragraph (c)(4) of this section, that is greater than its leverage buffer requirement as calculated under paragraph (a)(2)(v) of this section.

(v) *Negative eligible retained income*. Except as provided in paragraph (c)(1)(vi) of this section, a Board-regulated institution that is subject to 12 CFR 225.8 may not make distributions or discretionary bonus payments during the current calendar quarter if, as of the end of the previous calendar quarter, the Board-regulated institution's:

(A) Eligible retained income is negative; and

(B) (*1*) Standardized approach capital conservation buffer was less than its stress capital buffer requirement; or

(*2*) If applicable, advanced approaches capital conservation buffer was less than 2.5 percent; or

(*3*) If applicable, leverage buffer was less than its leverage buffer requirement.

(vi) *Prior approval*. Notwithstanding the limitations in paragraphs (c)(1)(i) through (c)(1)(v) of this section, the Board may permit a Board-regulated institution that is subject to 12 CFR 225.8 to make a distribution or discretionary bonus payment upon a request of the Board-regulated institution, if the Board determines that the distribution or discretionary bonus payment would not be contrary to the purposes of this section, or to the safety and soundness of the Board-regulated institution. In making such a determination, the Board will consider the nature and extent of the request and the particular circumstances giving rise to the request.

(v) *Other limitations on distributions.* Additional limitations on distributions may apply under 12 CFR 225.4, 12 CFR 225.8, 12 CFR 252.63, 12 CFR 252.165, and 12 CFR 263.202 to a Board-regulated institution that is subject to 12 CFR 225.8.

(2) *Standardized approach capital conservation buffer*. (i) The standardized approach capital conservation buffer for Board-regulated institutions subject to 12 CFR 225.8 is composed solely of common equity tier 1 capital.

(ii) A Board-regulated institution that is subject to 12 CFR 225.8 has a standardized approach capital conservation buffer that is equal to the lowest of the following ratios, calculated as of the last day of the previous calendar quarter:

(A) The ratio calculated by the Board-regulated institution under § 217.10(b)(1) or (c)(1)(i), as applicable, minus the Board-regulated institution's minimum common equity tier 1 capital ratio requirement under § 217.10(a);

(B) The ratio calculated by the Board-regulated institution under § 217.10(b)(2) or (c)(2)(i), as applicable, minus the Board-regulated institution's minimum tier 1 capital ratio requirement under § 217.10(a); and

(C) The ratio calculated by the Board-regulated institution under § 217.10(b)(3) or (c)(3)(i), as applicable, minus the Board-regulated institution's minimum total capital ratio requirement under § 217.10(a).

(iii) Notwithstanding paragraph (c)(2)(ii) of this section, if any of the ratios calculated by the Board-regulated institution under § 217.10(b)(1), (b)(2), or (b)(3), or if applicable § 217.10(c)(1)(i), (c)(2)(i), or (c)(3)(i) is less than or equal to the Board-regulated institution's minimum common equity tier 1 capital ratio, tier 1 capital ratio, or total capital ratio requirement under § 217.10(a), respectively, the Board-regulated institution's capital conservation buffer is zero.

(3) *Advanced approaches capital conservation buffer*. (i) The advanced approaches capital conservation buffer is composed solely of common equity tier 1 capital.

(ii) A Board-regulated institution that calculates risk-weighted assets under subpart E has an advanced approaches capital conservation buffer that is equal to the lowest of the following ratios, calculated as of the last day of the previous calendar quarter:

(A) The ratio calculated by the Board-regulated institution under § 217.10(c)(1)(ii) minus the Board-regulated institution's minimum common equity tier 1 capital ratio requirement under § 217.10(a);

(B) The ratio calculated by the Board-regulated institution under § 217.10(c)(2)(ii) minus the Board-regulated institution's minimum tier 1 capital ratio requirement under § 217.10(a); and

(C) The ratio calculated by the Board-regulated institution under § 217.10(c)(3)(ii) minus the Board-regulated institution's minimum total capital ratio requirement under § 217.10(a).

(iii) Notwithstanding paragraph (c)(3)(ii) of this section, if any of the ratios calculated by the Board-regulated institution under § 217.10(c)(1)(ii), (c)(2)(ii), or (c)(3)(ii) is less than or equal to the Board-regulated institution's minimum common equity tier 1 capital ratio, tier 1 capital ratio, or total capital ratio requirement under § 217.10(a), respectively, the Board-regulated institution's advanced approaches capital conservation buffer is zero.

(4) *Leverage buffer*—(i) The leverage buffer is composed solely of tier 1 capital.

(ii) A global systemically important BHC has a leverage buffer that is equal to the global systemically important BHC's supplementary leverage ratio minus 3 percent, calculated as of the last day of the previous calendar quarter.

(iii) Notwithstanding paragraph (c)(4)(ii) of this section, if the global systemically important BHC's supplementary leverage ratio is less than or equal to 3 percent, the global systemically important BHC's leverage buffer is zero.

TABLE 2 TO § 217.11—CALCULATION OF MAXIMUM PAYOUT RATIO

Capital buffer[1]	**Payout ratio**
Greater than the Board-regulated institution's buffer requirement[2]	No payout ratio limitation applies.
Less than or equal to 100 percent of the Board-regulated institution's buffer requirement, *and* greater than 75 percent of the Board-regulated institution's buffer requirement	60 percent.
Less than or equal to 75 percent of the Board-regulated institution's buffer requirement, *and* greater than 50 percent of the bank holding company's buffer requirement	40 percent.
Less than or equal to 50 percent of the Board-regulated institution's buffer requirement, *and* greater than 25 percent of the Board-regulated institution's buffer requirement	20 percent.
Less than or equal to 25 percent of the Board-regulated institution's buffer requirement	0 percent.

1. A Board-regulated institution's "capital buffer" means each of, as applicable, its standardized approach capital conservation buffer, advanced approaches capital conservation buffer, and leverage buffer.

2. A Board-regulated institution's "buffer requirement" means each of, as applicable, its standardized approach capital conservation buffer requirement, advanced approaches capital conservation buffer requirement, and leverage buffer requirement.

(d) *GSIB surcharge.* A global systemically important BHC must use its GSIB surcharge calculated in accordance with subpart H of this part for purposes of determining its maximum payout ratio under Table 2 to § 217.11.

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

3. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p-1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3906, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

4. Section 225.8 is revised to read as follows:

§225.8 Capital planning and stress capital buffer requirement.

(a) *Purpose.* This section establishes capital planning and prior notice and approval requirements for capital distributions by certain bank holding companies. This section also establishes the Board's process for determining the stress capital buffer requirement applicable to these bank holding companies.

(b) *Scope and reservation of authority*—

(1) *Applicability.* Except as provided in paragraph (c) of this section, this section applies to:

(i) Any top-tier bank holding company domiciled in the United States with average total consolidated assets of $100 billion or more ($100 billion asset threshold);

(ii) Any other bank holding company domiciled in the United States that is made subject to this section, in whole or in part, by order of the Board;

(iii) Any U.S. intermediate holding company subject to this section pursuant to 12 CFR 252.153; and

(iv) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) *Average total consolidated assets.* For purposes of this section, average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y-9C, for the most recent quarter or consecutive quarters, as applicable. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average.

(3) *Ongoing applicability.* A bank holding company (including any successor bank holding company) that is subject to any requirement in this section shall remain subject to such requirements unless and until its total consolidated assets fall below $100 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(4) *Reservation of authority.* Nothing in this section shall limit the authority of the Federal Reserve to issue or enforce a capital directive or take any other supervisory or enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law.

(5) *Rule of construction.* Unless the context otherwise requires, any reference to bank holding company in this section shall include a U.S. intermediate holding company

and shall include a nonbank financial company supervised by the Board to the extent this section is made applicable pursuant to a rule or order of the Board.

(6) *Application of this section by order.* The Board may apply this section, in whole or in part, to a bank holding company by order based on the institution's size, level of complexity, risk profile, scope of operations, or financial condition.

(c) *Transition periods for certain bank holding companies.* (1) A bank holding company that meets the $100 billion asset threshold (as measured under paragraph (b) of this section) on or before September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the next calendar year, unless that time is extended by the Board in writing.

(2) A bank holding company that meets the $100 billion asset threshold after September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the second calendar year after the bank holding company meets the $100 billion asset threshold, unless that time is extended by the Board in writing.

(3) The Board, or the appropriate Reserve Bank with the concurrence of the Board, may require a bank holding company described in paragraph (c)(1) or (c)(2) of this section to comply with any or all of the requirements of this section if the Board, or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(d) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Advanced approaches* means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable.

(2) *Average total nonbank assets* means the average of the total nonbank assets, calculated in accordance with the instructions to the FR Y-9LP, for the four most recent calendar quarters or, if the bank holding company has not filed the FR Y-9LP for each of the four most recent calendar quarters, for the most recent quarter or quarters, as applicable.

(3) *BHC baseline scenario* means a scenario that reflects the bank holding company's expectation of the economic and financial outlook, including expectations related to the bank holding company's capital adequacy and financial condition.

(4) *BHC stress scenario* means a scenario designed by a bank holding company that stresses the specific vulnerabilities of the bank holding company's risk profile and operations, including those related to the bank holding company's capital adequacy and financial condition.

(5) *Capital action* means any issuance of a debt or equity capital instrument, any capital distribution, and any similar action that the Federal Reserve determines could impact a bank holding company's consolidated capital.

(6) *Capital distribution* means a redemption or repurchase of any debt or equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum regulatory capital ratio, and any similar transaction that the Federal Reserve determines to be in substance a distribution of capital.

(7) *Capital plan* means a written presentation of a bank holding company's capital planning strategies and capital adequacy process that includes the mandatory elements set forth in paragraph (e)(2) of this section.

(8) *Capital plan cycle* means the period beginning on January 1 of a calendar year and ending on December 31 of that year.

(9) *Capital policy* means a bank holding company's written principles and guidelines used for capital planning, capital issuance, capital usage and distributions, including internal capital goals; the quantitative or qualitative guidelines for capital distributions; the strategies for addressing potential capital shortfalls; and the internal governance procedures around capital policy principles and guidelines.

(10) *Common equity tier 1 capital* has the same meaning as under 12 CFR part 217.

(11) *Effective capital distribution limitations* means any limitations on capital distributions established by the Board by order or regulation, including pursuant to 12 CFR 217.11, 225.4, 252.63, 252.165, and 263.202, provided that, for any limitations based on risk-weighted assets, such limitations must be calculated using the standardized approach, as set forth in 12 CFR part 217, subpart D.

(12) *Final planned capital distributions* means the planned capital distributions included in a capital plan that include the adjustments made pursuant to paragraph (h) of this section, if any.

(13) *Global systemically important BHC* means a bank holding company identified as a global systemically important BHC under 12 CFR 217.402.

(14) *GSIB surcharge* has the same meaning as under 12 CFR 217.403.

(15) *Large and noncomplex bank holding company* means any bank holding company subject to this section that:

(i) Has, as of December 31 of the calendar year prior to the capital plan cycle:

(A) Average total consolidated assets of less than $250 billion;

(B) Average total nonbank assets of less than $75 billion; and

(ii) Is not a global systemically important BHC.

(16) *Nonbank financial company supervised by the Board* means a company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(17) *Planning horizon* means the period of at least nine consecutive quarters, beginning with the quarter preceding the quarter in which the bank holding company submits its capital plan, over which the relevant projections extend.

(18) *Regulatory capital ratio* means a capital ratio for which the Board has established minimum requirements for the bank holding company by regulation or order, including, as applicable, the bank holding company's regulatory capital ratios calculated under 12 CFR part 217 and the deductions required under 12 CFR 248.12; except that the bank holding company shall not use the advanced approaches to calculate its regulatory capital ratios.

(19) *Severely adverse scenario* has the same meaning as under 12 CFR part 252, subpart E.

(20) *Stress capital buffer requirement* means the amount calculated under paragraph (f) of this section.

(21) *Supervisory stress test* means a stress test conducted using a severely adverse scenario and the assumptions contained in 12 CFR part 252, subpart E.

(22) *U.S. intermediate holding company* means the top-tier U.S. company that is required to be established pursuant to 12 CFR 252.153.

(e) *Capital planning requirements and procedures*—

(1) *Annual capital planning.*

(i) A bank holding company must develop and maintain a capital plan.

(ii) A bank holding company must submit its complete capital plan to the Board and the appropriate Reserve Bank by April 5 of each calendar year, or such later date as directed by the Board or by the appropriate Reserve Bank with concurrence of the Board.

(iii) The bank holding company's board of directors or a designated committee thereof must at least annually and prior to submission of the capital plan under paragraph (e)(1)(ii) of this section:

(A) Review the robustness of the bank holding company's process for assessing capital adequacy;

(B) Ensure that any deficiencies in the bank holding company's process for assessing capital adequacy are appropriately remedied; and

(C) Approve the bank holding company's capital plan.

(2) *Mandatory elements of capital plan.* A capital plan must contain at least the following elements:

(i) An assessment of the expected uses and sources of capital over the planning horizon that reflects the bank holding company's size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions, including:

(A) Estimates of projected revenues, losses, reserves, and pro forma capital levels, including regulatory capital ratios, and any additional capital measures deemed relevant by the bank holding company, over the planning horizon under a range of scenarios, including any scenarios provided by the Federal Reserve, the BHC baseline scenario, and at least one BHC stress scenario;

(B) A discussion of the results of any stress test required by law or regulation, and an explanation of how the capital plan takes these results into account; and

(C) A description of all planned capital actions over the planning horizon. Planned capital actions must be consistent with effective capital distribution limitations, except as may be adjusted pursuant to paragraph (h) of this section. In determining whether a bank holding company's planned capital distributions are consistent with effective capital distribution limitations, a bank holding company must assume that:

(*1*) Any countercyclical capital buffer amount currently applicable to the bank holding company remains at the same level, except that the bank holding company must reflect any increases or decreases in the countercyclical capital buffer amount that have been announced by the Board at the times indicated by the Board's announcement for when such increases or decreases will take effect; and

(*2*) Any GSIB surcharge currently applicable to the bank holding company when the capital plan is submitted remains at the same level, except that the bank holding company must reflect any increase in its GSIB surcharge pursuant to 12 CFR 217.403(d)(1), beginning in the fifth quarter of the planning horizon.

(ii) A detailed description of the bank holding company's process for assessing capital adequacy, including:

(A) A discussion of how the bank holding company will, under expected and stressful conditions, maintain capital commensurate with its risks, maintain capital above the regulatory capital ratios, and serve as a source of strength to its subsidiary depository institutions;

(B) A discussion of how the bank holding company will, under expected and stressful conditions, maintain sufficient capital to continue its operations by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary;

(iii) The bank holding company's capital policy; and

(iv) A discussion of any expected changes to the bank holding company's business plan that are likely to have a material impact on the bank holding company's capital adequacy or liquidity.

(3) *Data collection.* Upon the request of the Board or appropriate Reserve Bank, the bank holding company shall provide the Federal Reserve with information regarding:

(i) The bank holding company's financial condition, including its capital;

(ii) The bank holding company’s structure;

(iii) Amount and risk characteristics of the bank holding company's on- and off-balance sheet exposures, including exposures within the bank holding company's trading account, other trading-related exposures (such as counterparty-credit risk exposures) or other items sensitive to changes in market factors, including, as appropriate, information about the sensitivity of positions to changes in market rates and prices;

(iv) The bank holding company's relevant policies and procedures, including risk management policies and procedures;

(v) The bank holding company's liquidity profile and management;

(vi) The loss, revenue, and expense estimation models used by the bank holding company for stress scenario analysis, including supporting documentation regarding each model's development and validation; and

(vii) Any other relevant qualitative or quantitative information requested by the Board or by the appropriate Reserve Bank to facilitate review of the bank holding company's capital plan under this section.

(4) *Resubmission of a capital plan.*

(i) A bank holding company must update and resubmit its capital plan to the appropriate Reserve Bank within 30 calendar days of the occurrence of one of the following events:

(A) The bank holding company determines there has been or will be a material change in the bank holding company's risk profile, financial condition, or corporate structure since the bank holding company last submitted the capital plan to the Board and the appropriate Reserve Bank under this section; or

(B) The Board, or the appropriate Reserve Bank with concurrence of the Board, directs the bank holding company in writing to revise and resubmit its capital plan for any of the following reasons:

(*1*) The capital plan is incomplete or the capital plan, or the bank holding company's internal capital adequacy process, contains material weaknesses;

(*2*) There has been, or will likely be, a material change in the bank holding company's risk profile (including a material change in its business strategy or any risk exposure), financial condition, or corporate structure;

(*3*) The BHC stress scenario(s) are not appropriate for the bank holding company's business model and portfolios, or changes in financial markets or the macro-economic outlook that could have a material impact on a bank holding company's risk profile and financial condition require the use of updated scenarios; or

(*4*) For a bank holding company subject to paragraph (i) of this section, the capital plan or the condition of the bank holding company raise any of the issues described in paragraph (i)(2) of this section.

(ii) A bank holding company may resubmit its capital plan to the Federal Reserve if the Board or the appropriate Reserve Bank objects to the capital plan.

(iii) The Board, or the appropriate Reserve Bank with concurrence of the Board, may extend the 30-day period in paragraph (e)(4)(i) of this section for up to an additional 60 calendar days, or such longer period as the Board or the appropriate Reserve Bank, with concurrence of the Board, determines appropriate.

(iv) Any updated capital plan must satisfy all the requirements of this section; however, a bank holding company may continue to rely on information submitted as part of a previously submitted capital plan to the extent that the information remains accurate and appropriate.

(5) *Confidential treatment of information submitted.* The confidentiality of information submitted to the Board under this section and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

(f) *Calculation of the stress capital buffer requirement*—

(1) *General.* The Board will determine the stress capital buffer requirement that applies under 12 CFR 217.11 pursuant to paragraph (f) of this section.

(2) *Stress capital buffer requirement calculation.* A bank holding company's stress capital buffer requirement is equal to the greater of:

(i) The following calculation:

(A) The ratio of a bank holding company's common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, as of the final quarter of the previous capital plan cycle, unless otherwise determined by the Board; minus

(B) The lowest projected ratio of the bank holding company's common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test; plus

(C) The ratio of:

(*1)* The sum of the bank holding company’s planned common stock dividends (expressed as a dollar amount) for each of the fourth through seventh quarters of the planning horizon; to

(2) The risk-weighted assets of the bank holding company in the quarter in which the bank holding company had its lowest projected ratio of common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test; and

(ii) 2.5 percent.

(3) *Recalculation of stress capital buffer requirement.* If a bank holding company resubmits its capital plan pursuant to paragraph (e)(4) of this section, the Board may recalculate the bank holding company’s stress capital buffer requirement. The Board will provide notice of whether the bank holding company’s stress capital buffer requirement will be recalculated within 75 calendar days after the date on which the capital plan is resubmitted, unless the Board provides notice to the company that it is extending the time period.

(g) *Review of capital plans by the Federal Reserve.* The Board, or the appropriate Reserve Bank with concurrence of the Board, will consider the following factors in reviewing a bank holding company's capital plan:

(1) The comprehensiveness of the capital plan, including the extent to which the analysis underlying the capital plan captures and addresses potential risks stemming from activities across the bank holding company and the bank holding company's capital policy;

(2) The reasonableness of the bank holding company's capital plan, the assumptions and analysis underlying the capital plan, and the robustness of its capital adequacy process;

(3) Relevant supervisory information about the bank holding company and its subsidiaries;

(4) The bank holding company's regulatory and financial reports, as well as supporting data that would allow for an analysis of the bank holding company's loss, revenue, and reserve projections;

(5) The results of any stress tests conducted by the bank holding company or the Federal Reserve; and

(6) Other information requested or required by the Board or the appropriate Reserve Bank, as well as any other information relevant, or related, to the bank holding company's capital adequacy.

(h) *Federal Reserve notice of stress capital buffer requirement; final planned capital distributions*—

(1) *Notice.* The Board will provide a bank holding company with notice of its stress capital buffer requirement and an explanation of the results of the supervisory stress test. Unless otherwise determined by the Board, notice will be provided by June 30 of the calendar year in which the capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section or within 90 calendar days of receiving notice that the Board will recalculate the bank holding company's stress capital buffer requirement pursuant to paragraph (f)(3) of this section.

(2) *Response to notice.*

(i) *Request for reconsideration of stress capital buffer requirement.* A bank holding company may request reconsideration of a stress capital buffer requirement provided under paragraph (h)(1) of this section. To request reconsideration of a stress capital buffer requirement, a bank holding company must submit to the Board a request pursuant to paragraph (j) of this section.

(ii) *Adjustments to planned capital distributions.* Within two business days of receipt of notice of a stress capital buffer requirement under paragraph (h)(1) or (j)(5) of this section, as applicable, a bank holding company must:

(A) Determine whether the planned capital distributions for the fourth through seventh quarters of the planning horizon under the BHC baseline scenario would be consistent with effective capital distribution limitations assuming the stress capital buffer requirement provided by the Board under paragraph (h)(1) or (j)(5) of this section, as applicable, in place of any stress capital buffer requirement in effect; and

(*1*) If the planned capital distributions for the fourth through seventh quarters of the planning horizon under the BHC baseline scenario would not be consistent with effective capital distribution limitations assuming the stress capital buffer requirement provided by the Board under paragraph (h)(1) or (j)(5) of this section, as applicable, in place of any stress capital buffer requirement in effect, the bank holding company must adjust its planned capital distributions such that its planned capital distributions would be consistent with effective capital distribution limitations assuming the stress capital buffer requirement provided by the Board under paragraph (h)(1) or (j)(5) of this section, as applicable, in place of any stress capital buffer requirement in effect; or

(*2*) If the planned capital distributions for the fourth through seventh quarters of the planning horizon under the BHC baseline scenario would be consistent with effective capital distribution limitations assuming the stress capital buffer requirement provided by the Board under paragraph (h)(1) or (j)(5) of this section, as applicable, in place of any stress capital buffer requirement in effect, the bank holding company may adjust its planned capital distributions. A bank holding company may not adjust its planned capital distributions to be inconsistent with the effective capital distribution limitations assuming the stress capital buffer requirement provided by the Board under paragraph (h)(1) or (j)(5) of this section, as applicable; and

(B) Notify the Board of any adjustments made to planned capital distributions for the fourth through seventh quarters of the planning horizon under the BHC baseline scenario.

(3) *Final planned capital distributions.* The Board will consider the planned capital distributions, including any adjustments made pursuant to paragraph (h)(2)(ii) of this section, to be the bank holding company's final planned capital distributions on the later of:

(i) The expiration of the time for requesting reconsideration under paragraph (j) of this section; and

(ii) The expiration of the time for adjusting planned capital distributions pursuant to paragraph (h)(2)(ii) of this section.

(4) *Effective date of final stress capital buffer requirement.*

(i) The Board will provide a bank holding company with its final stress capital buffer requirement and confirmation of the bank holding company's final planned capital distributions by August 31 of the calendar year that a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section, unless otherwise determined by the Board. A stress capital buffer requirement will not be considered final so as to be agency action subject to judicial review under 5 U.S.C. 704 during the pendency of a request for reconsideration made pursuant to paragraph (j) of this section or before the time for requesting reconsideration has expired.

(ii) Unless otherwise determined by the Board, a bank holding company's final planned capital distributions and final stress capital buffer requirement shall:

(A) Be effective on October 1 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section; and

(B) Remain in effect until superseded.

(5) *Publication.* With respect to any bank holding company subject to this section, the Board may disclose publicly any or all of the following:

(i) The stress capital buffer requirement provided to a bank holding company under paragraph (h)(1) or (j)(5) of this section;

(ii) Adjustments made pursuant to paragraph (h)(2)(ii);

(iii) A summary of the results of the supervisory stress test; and

(iv) Other information.

(i) *Federal Reserve action on a capital plan* —

(1) *Timing of action.* Board or the appropriate Reserve Bank with concurrence of the Board, will object, in whole or in part, to the capital plan or provide the bank holding company with a notice of non-objection to the capital plan:

(i) By June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section; and

(ii) For a capital plan resubmitted pursuant to paragraph (e)(4) of this section, within 75 calendar days after the date on which a capital plan is resubmitted, unless the Board provides notice to the company that it is extending the time period.

(2) *Basis for objection to a capital plan.* The Board, or the appropriate Reserve Bank with concurrence of the Board, may object to a capital plan submitted by a bank holding company that is not a large and noncomplex bank holding company if it determines that:

(i) Until January 1, 2021, except as provided in paragraph (i)(2)(ii) of this section, for a bank holding company that was subject to this section as of January 1, 2019, but whose capital plan has not been subject to review and a potential qualitative objection under the criteria listed in paragraph (i)(2)(i)(A)-(C) of this section for any period of four consecutive years:

(A) The bank holding company has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process;

(B) The assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies and practices that support its capital planning process, are not reasonable or appropriate; or

(C) The bank holding company's capital planning process or proposed capital distributions otherwise constitute an unsafe or unsound practice, or would violate any law, regulation, Board order, directive, or condition imposed by, or written agreement with, the Board or the appropriate Reserve Bank. In determining whether a capital plan or any proposed capital distribution would constitute an unsafe or unsound practice, the Board or the appropriate Reserve Bank would consider whether the bank holding company is and would remain in sound financial condition after giving effect to the capital plan and all proposed capital distributions.

(ii) Notwithstanding paragraph (i)(2)(i) of this section, a bank holding company that was subject to this section as of January 1, 2019, and that receives a qualitative objection in the fourth year of the four-year period described in paragraph (i)(2)(i), pursuant to the criteria in paragraph (i)(2)(i)(A)-(C) of this section, will remain subject to a qualitative objection under this section until January 1 of the year after the first year in which the bank holding company does not receive a qualitative objection.

(3) *Notification of decision.* The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to object to a capital plan.

(4) *Publication of summary results.* The Board may disclose publicly its decision to object or not object to a bank holding company's capital plan under this section. Any disclosure under this paragraph (i)(4) will occur by June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section, unless otherwise determined by the Board.

(j) *Administrative remedies; request for reconsideration.* The following requirements and procedures apply to any request under this paragraph (j):

(1) *General.* To request reconsideration of an objection to a capital plan, provided under paragraph (i) of this section, or of a stress capital buffer requirement, provided under paragraph (h) of this section, a bank holding company must submit a written request for reconsideration.

(2) *Timing of request.*

(i) A request for reconsideration of an objection to a capital plan, provided under paragraph (i) of this section, must be received within 15 calendar days of receipt of a notice of objection to a capital plan.

(ii) A request for reconsideration of a stress capital buffer requirement, provided under paragraph (h) of this section, must be received within 15 calendar days of receipt of a notice of a bank holding company's stress capital buffer requirement.

(3) *Contents of request.*

(i) A request for reconsideration must include a detailed explanation of why reconsideration should be granted (that is, why a stress capital buffer requirement or objection to a capital plan should be reconsidered). With respect to any information that was not previously provided to the Federal Reserve in the bank holding company's capital plan, the request should include an explanation of why the information should be considered.

(ii) A request for reconsideration may include a request for an informal hearing on the bank holding company's request for reconsideration.

(4) *Hearing.*

(i) The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(ii) An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(5) *Response to request.*

(i) Within 30 calendar days of receipt of the bank holding company's request for reconsideration of an objection to a capital plan submitted under paragraph (j)(2) of this section or within 30 days of the conclusion of an informal hearing conducted under paragraph (j)(4) of this section, the Board will notify the company of its decision to affirm, modify, or withdraw the objection to the bank holding company's capital plan, or a specific capital distribution, provided that the Board may extend this period upon notice to the bank holding company.

(ii) Within 30 calendar days of receipt of the bank holding company's request for reconsideration of its stress capital buffer requirement submitted under paragraph (j)(2) of this section or within 30 days of the conclusion of an informal hearing conducted under paragraph (j)(4) of this section, the Board will notify the company of its decision to affirm or modify the bank holding company's stress capital buffer requirement, provided that the Board may extend this period upon notice to the bank holding company.

(6) *Distributions during the pendency of a request for reconsideration.* During the pendency of the Board's decision under paragraph (j)(5) of this section, the bank holding company may make capital distributions that are consistent with effective distribution limitations, unless prior approval is required under paragraph (k)(1) of this section.

(k) *Approval requirements for certain capital actions*—

(1) *Circumstances requiring approval.*

(i) *Qualitative objection to and resubmission of a capital plan.* Unless it receives prior approval pursuant to paragraph (k)(3) of this section, a bank holding company may not make a capital distribution (excluding any capital distribution arising from the issuance of a capital instrument eligible for inclusion in the numerator of a regulatory capital ratio) under the following circumstances:

(A) The Board, or the appropriate Reserve Bank with the concurrence of the Board, objects to a capital plan and until such time as the Board, or the appropriate Reserve Bank with concurrence of the Board, issues a non-objection to the bank holding company's capital plan;

(B) The capital distribution would occur after the occurrence of an event requiring resubmission under paragraph (e)(4)(i)(A) or (B) of this section.

(ii) *Transition for certain planned capital actions.* For the period July 1, 2020, to September 30, 2020, a bank holding company is authorized to make capital distributions that do not exceed an amount equal to the average of capital distributions over the four quarters to which the Board or the appropriate Reserve Bank indicated its non-objection for the previous capital plan cycle. A bank holding company may request prior approval to make capital distributions in excess of the amount authorized for the period July 1, 2020, to September 30, 2020, pursuant to paragraph (k)(2) of this section.

(2) *Contents of request.* A request for a capital distribution under this section must contain the following information:

(i) The bank holding company's capital plan or a discussion of changes to the bank holding company's capital plan since it was last submitted to the Federal Reserve;

(ii) The purpose of the transaction;

(iii) A description of the capital distribution, including for redemptions or repurchases of securities, the gross consideration to be paid and the terms and sources of funding for the transaction, and for dividends, the amount of the dividend(s); and

(iv) Any additional information requested by the Board or the appropriate Reserve Bank (which may include, among other things, an assessment of the bank holding company's capital adequacy under a severely adverse scenario, a revised capital plan, and supporting data).

(3) *Approval of certain capital distributions.*

(i) The Board, or the appropriate Reserve Bank with concurrence of the Board, will act on a request for prior approval of a capital distribution within 30 calendar days after the receipt of all the information required under paragraph (k)(2) of this section.

(ii) In acting on a request for prior approval of a capital distribution, the Board, or appropriate Reserve Bank with concurrence of the Board, will apply the considerations and principles in paragraphs (g) and (i) of this section, as appropriate. In addition, the Board, or the appropriate Reserve Bank with concurrence of the Board, may disapprove the transaction if the bank holding company does not provide all of the information required to be submitted under paragraph (k)(2) of this section.

(4) *Disapproval and hearing.*

(i) The Board, or the appropriate Reserve Bank with concurrence of the Board, will notify the bank holding company in writing of the reasons for a decision to disapprove any proposed capital distribution. Within 15 calendar days after receipt of a disapproval by the Board, the bank holding company may submit a written request for a hearing.

(ii) The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact. An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(iii) Written notice of the final decision of the Board shall be given to the bank holding company within 60 calendar days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(iv) While the Board's decision is pending and until such time as the Board, or the appropriate Reserve Bank with concurrence of the Board, approves the capital distribution at issue, the bank holding company may not make such capital distribution.

(*l*) *Post notice requirement*. A bank holding company must notify the Board and the appropriate Reserve Bank within 15 days of making a capital distribution if:

(1) The capital distribution was approved pursuant to paragraph (k)(3) of this section; or

(2) The dollar amount of the capital distribution will exceed the dollar amount of the bank holding company's final planned capital distributions, as measured on an aggregate basis beginning in the fourth quarter of the planning horizon through the quarter at issue.

PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

5. The authority citation for part 252 continues to read as follows:

Authority: 12 U.S.C. 321–338a, 481–486, 1467a, 1818, 1828, 1831n, 1831o, 1831p–l, 1831w, 1835, 1844(b), 1844(c), 3101 *et seq.*, 3101 note, 3904, 3906–3909, 4808, 5361, 5362, 5365, 5366, 5367, 5368, 5371.

Subpart E— Supervisory Stress Test Requirements for Certain U.S. Banking Organizations With $100 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board

6. In § 252.16, republish paragraph (b) and add paragraphs (b)(1) - (b)(3) as follows:

§ 252.16 Reports of stress test results.

*** * * * ***

(b) *Contents of reports*. The report required under paragraph (a) of this section must include the following information for the baseline scenario, severely adverse scenario, and any other scenario required under § 252.14(b)(3):

(1) A description of the types of risks being included in the stress test;

(2) A summary description of the methodologies used in the stress test; and

(3) For each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for credit losses, net income, and regulatory capital ratios;

7. In § 252.44, redesignate paragraph (c) as paragraph (d) and add new paragraph (c) to read as follows:

§ 252.44 Analysis conducted by the Board.

* * * * *

(c) In conducting a stress test under this section, the Board will make the following assumptions regarding a covered company's capital actions over the planning horizon:

(1) The covered company will not pay any dividends on any instruments that qualify as common equity tier 1 capital;

(2) The covered company will make payments on instruments that qualify as additional tier 1 capital or tier 2 capital equal to the stated dividend, interest, or principal due on such instrument;

(3) The covered company will not make a redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and

(4) The covered company will not make any issuances of common stock or preferred stock.

***   *   *   *   ***

Subpart F—Company-Run Stress Test Requirements for Certain U.S. Bank Holding Companies and Nonbank Financial Companies Supervised by the Board

8. In § 252.54, revise paragraph (b)(2) to read as follows:

§ 252.54 Stress test.

*   *   *   *   *

(b) * * *

(2) *Additional Components.* (i) The Board may require a covered company with significant trading activity to include a trading and counterparty component in its severely adverse scenario in the stress test required by this section. A covered company has significant trading activity if it has:

(A) Aggregate trading assets and liabilities of $50 billion or more, or aggregate trading assets and liabilities equal to 10 percent or more of total consolidated assets;

(B) Is not a large and noncomplex bank holding company as the term is used in 12 CFR 225.8.

(ii) The Board may require a covered company to include one or more additional components in its severely adverse scenario in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

* * * * *

9. Section 252.56 is amended by revising paragraph (b) as follows:

§ 252.56 Methodologies and practices.

(a) * * *

(b) *Assumptions regarding capital actions.* In conducting a stress test under § 252.54, a covered company is required to make the following assumptions regarding its capital actions over the planning horizon:

(1) The covered company will not pay any dividends on any instruments that qualify as common equity tier 1 capital;

(2) The covered company will make payments on instruments that qualify as additional tier 1 capital or tier 2 capital equal to the stated dividend, interest, or principal due on such instrument;

(3) The covered company will not make a redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and

(4) The covered company will not make any issuances of common stock or preferred stock.

* * * * *

Appendix B to Part 252– Stress Test Policy Statement

10. Revise section 2.6, 2.7 and add section 3.4 to appendix B to part 252 to read as follows:

* * * * *

2.6. Incorporation of Business Plan Changes

(a) A firm's stress capital buffer requirement does not incorporate changes to its business plan that are likely to have a material impact on a covered company's capital adequacy and funding profile (material business plan changes). For example, planned issuances of common or preferred stock in connection with a planned merger or acquisition will not be included in the stress capital buffer requirement calculation. In addition, the common stock dividends attributable to issuances in connection with a planned merger or acquisition reflected in the covered company's pro-forma balance sheet estimates will also not be included in the stress capital buffer requirement calculation. Material business plan changes, including those resulting from a merger or acquisition, are incorporated into a covered company's capital and risk-weighted assets upon consummation of the transaction or occurrence of the change. As a result, the amount of capital required will adjust based on changes to the covered company's risk-weighted assets.

If the material business plan change resulted in or would result in a material change in a covered company's risk profile, the company is required to resubmit its capital plan and the Board may determine to recalculate the stress capital buffer requirement based on the resubmitted capital plan.

2.7. Credit Supply Maintenance

(a) The supervisory stress test incorporates the assumption that aggregate credit supply does not contract during the stress period. The aim of supervisory stress testing is to assess whether firms are sufficiently capitalized to absorb losses during times of economic stress, while also meeting obligations and continuing to lend to households and businesses. The assumption that a balance sheet of consistent magnitude is maintained allows supervisors to evaluate the health of the banking sector assuming firms continue to lend during times of stress.

(b) In order to implement this policy, the Federal Reserve must make assumptions about new loan balances. To predict losses on new originations over the planning horizon, newly originated loans are assumed to have the same risk characteristics as the existing portfolio, where applicable, with the exception of loan age and delinquency status. These newly originated loans would be part of a covered company's normal business, even in a stressed economic environment. While an individual firm may assume that it reacts to rising losses by sharply restricting its lending (e.g., by exiting a particular business line), the banking industry as a whole cannot do so without creating a “credit crunch” and substantially increasing the severity and duration of an economic downturn. The assumption that the magnitude of firm balance sheets will be fixed in the supervisory stress test ensures that covered companies cannot assume they will “shrink to health,” and serves the Federal Reserve's goal of helping to ensure that major financial firms remain sufficiently capitalized to accommodate credit demand in a severe downturn. In addition, by precluding the need to make assumptions about how underwriting standards might tighten or loosen during times of economic stress, the Federal Reserve follows the principle of consistency and comparability and promotes consistency across covered companies.

In projecting the denominator for the calculation of the leverage ratio, the Federal Reserve will account for the effect of changes associated with the calculation of regulatory capital or changes to the Board's regulations.

*   *   *   *   *

3.4. Simple approach for projecting risk-weighted assets

In projecting risk-weighted assets, the Federal Reserve will generally assume that a covered company's risk-weighted assets remain unchanged over the planning horizon. This assumption allows the Federal Reserve to independently project the risk-weighted assets of covered companies in line with the goal of simplicity (Principle 1.4). In addition, this approach is forward-looking (Principle 1.2), as this assumption removes reliance on historical data and past outcomes from the projection of risk-weighted assets.

In projecting a firm's risk-weighted assets, the Federal Reserve will account for the effect of changes associated with the calculation of regulatory capital or changes to the Board's regulations in the calculation of risk-weighted assets.

By order of the Board of Governors of the Federal Reserve System, [DATE].

Ann E. Misback,
Secretary of the Board.