First take

June 13, 2014

A publication of PwC's financial services regulatory practice

Key points from the Fed's changes to the Capital Plan rule

Yesterday the Federal Reserve proposed changes to the Capital Plan rule, with comments accepted until August 11, 2014. While some of these changes will be well-received by the banks, the proposal overall continues the trend toward heightened regulatory expectations.

1. **The Fed raises the bar on the severity of the BHC-designed stress scenarios:** The proposed definition of BHC stress scenario includes the expectation that the BHC-designed stress scenarios result in a more adverse impact on net revenue and capital than the supervisory severely adverse scenario. The Fed has been shifting its focus away from supervisory scenarios to BHC-designed scenarios because supervisory scenarios, by definition, cannot stress the idiosyncratic risks of the firms, creating a potential blind spot in the stress testing exercise. Because the supervisory scenarios must be generic to all banks, the Fed expects that a scenario properly tailored to the risks of an individual firm should have more severe outcomes. The new rule puts the onus on each bank to identify its specific vulnerabilities based on its risk profile and operations, and find ways to stress those vulnerabilities in its BHC-designed scenario. Accordingly, we expect the firms' ability to identify and measure idiosyncratic risks to be an area of heightened regulatory scrutiny in future Comprehensive Capital Analysis and Review (CCAR) cycles.
2. **The Fed proposes saving Thanksgiving, Hanukkah, Christmas, and New Year's:** After stressing the holiday season over the last four CCAR cycles, the Fed has proposed moving the CCAR and Dodd-Frank Act Stress Test (DFAST) as-of dates back one quarter, from October 1st to January 1st. Consequently, supervisory macroeconomic scenarios would be released on February 15th rather than November 15th, and the trading and counterparty component of the supervisory scenarios would be provided on March 1st instead of December 1st. For BHCs with $50B or more in assets, capital plans will be due April 5th, while $10-50B BHCs would have to submit their plans by July 31st rather than March 31st. These changes would become effective for the stress testing cycle beginning January 1, 2016.
3. **Mid-cycle DFAST also moved back one quarter, preserving the 4th of July:** The Fed's proposal would move mid-cycle DFAST as-of date from March 31st to June 30th, with submissions due October 5th, rather than July 5th. Similar to CCAR, proposed DFAST dates would not take effect until 2016.
4. **Capital distributions are restricted if actual capital issuance falls below planned levels:** Under the changed rule, proposed capital distributions would be approved only net of capital issuance, meaning that if capital issuance falls below the level included in the baseline capital plan, distributions must be reduced by at least an equal amount.
5. **Foreign-owned BHCs continue to be subject to the Capital Plan rule until their parent IHC becomes subject to it:** The proposed changes clarify that foreign-owned BHCs with $50B or more in consolidated assets will continue to be subject to the Capital Plan rule until January 1, 2018, when their parent IHCs will become subject to the Fed's full CCAR process.

pwc

Additional information

For additional information about PwC's Financial Services Regulatory Practice and how we can help you, please contact:

Dan Ryan
Financial Services Advisory Leader
646 471 8488
daniel.ryan@us.pwc.com

Shyam Venkat
Partner, Financial Services Risk Advisory
646 471 8296
shyam.venkat@us.pwc.com

David Sapin
Partner, Financial Services Regulatory Advisory
646 471 8481
david.sapin@us.pwc.com

Armen Meyer
Director of Regulatory Strategy
646 531 4519
armen.meyer@us.pwc.com

Contributors: Charles von Althann and Steve Pearson.

To learn more about financial services regulation from your iPad or iPhone, click here to download PwC's new Regulatory Navigator App from the Apple App Store.

Follow us on Twitter @PwC_US_FinSrvcs