

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

November 21, 2012

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Federal Reserve Board Launches 2013 Capital Planning and Stress Testing Program

The Federal Reserve Board on November 9, 2012, launched the 2013 capital planning and stress testing program, issuing instructions to firms with timelines for submissions and general guidelines. The program includes the Comprehensive Capital Analysis and Review (CCAR) of 19 firms as well as the Capital Plan Review (CapPR) of an additional 11 bank holding companies with \$50 billion or more of total consolidated assets.¹

The aim of the annual reviews is to ensure that large, complex banking institutions have robust, forward-looking capital planning processes that account for their unique risks, and to help ensure that institutions have sufficient capital to continue operations throughout times of economic and financial stress. Capital is important to banking organizations, the financial system, and the broad economy because it acts as a cushion to absorb losses and helps to ensure that any such losses are borne by shareholders, not taxpayers. Institutions in the CCAR and CapPR programs will be expected to have credible plans that show they have sufficient capital to continue to lend to households and businesses even under severely adverse conditions, and are well prepared to meet Basel III regulatory capital standards as they are implemented in the United States.

Firms' capital adequacy will be assessed against a number of quantitative and qualitative criteria, including projected performance under the stress scenarios provided by the Federal Reserve and the institutions' internal scenarios. Boards of directors of the institutions are required to review and approve capital plans before submitting them to the Federal Reserve.

"The Federal Reserve has been focused--and will remain focused--on ensuring the nation's largest financial institutions have enough capital to weather severe, unexpected conditions and still continue lending to households and businesses," Gov. Daniel K. Tarullo said.

The 19 bank holding companies in the CCAR have increased their aggregate tier 1 common capital to \$803 billion in the second quarter of 2012 from \$420 billion in the first quarter of 2009. The tier 1 common ratio for these firms, which compares high-quality capital to risk-weighted assets, has more than doubled to a weighted average of 10.9 percent from 5.4 percent.

One part of the CCAR and CapPR reviews is an evaluation by the Federal Reserve of institutions' plans to make capital distributions, such as dividend payments or stock repurchases. The Federal Reserve will

¹ The 19 bank holding companies participating in the 2013 CCAR are Ally Financial Inc.; American Express Company; Bank of America Corporation; The Bank of New York Mellon Corporation; BB&T Corporation; Capital One Financial Corporation; Citigroup Inc.; Fifth Third Bancorp; The Goldman Sachs Group, Inc.; JPMorgan Chase & Co.; Keycorp; MetLife, Inc.; Morgan Stanley; The PNC Financial Services Group, Inc.; Regions Financial Corporation; State Street Corporation; SunTrust Banks, Inc.; U.S. Bancorp; and Wells Fargo & Company. These 19 firms also participated in the 2012 and 2011 CCARs and the 2009 Supervisory Capital Assessment Program. The 11 holding companies participating in the CapPR, are BBVA USA Bancshares Inc.; BMO Financial Corp.; Citizens Financial Group Inc.; Comerica Inc.; Discover Financial Services; HSBC North America Holdings Inc.; Huntington Bancshares Inc.; M&T Bank Corporation; Northern Trust Corporation; UnionBanCal Corporation; and Zions Bancorporation. These 11 firms also participated in the CapPR 2012.

approve dividend increases or other capital distributions only for companies whose capital plans are approved by supervisors and who are able to demonstrate sufficient financial strength to continue to operate as financial intermediaries under stressed macroeconomic and financial market scenarios, even after making the planned capital distributions.

In a change from prior years, following the Federal Reserve's assessment of the initial capital plans, CCAR firms will have one opportunity to make a downward adjustment to their planned capital distributions from their initial submissions before a final Federal Reserve decision is made.

As in 2012, the Federal Reserve will release summary results for the 19 CCAR firms including its projections of capital ratios, losses, and revenues under the Federal Reserve's severely adverse scenario. In 2013, the Federal Reserve will release two sets of post-stress data for each firm. One set will reflect the capital distribution assumptions prescribed in the stress testing rule mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act to enhance comparability of results. The other will include ratios based on each firm's own planned capital actions as proposed in their initial CCAR capital plan submissions, as well as ratios based on any adjustments made to planned capital distributions.

While the aims of CapPR are the same as CCAR, there are a number of important distinctions. For example, the Federal Reserve's assessment of capital plans under CapPR will not be based on supervisory estimates derived from independent supervisory models, but instead solely on an assessment of the firms' own capital plans and internal capital planning and stress testing practices that support them. Further, the Federal Reserve will not publish a summary of bank-specific results for CapPR in 2013.

The Federal Reserve wanted to give firms as much time as possible to prepare their submissions and therefore is issuing the instructions ahead of the release of the macroeconomic and financial market scenarios. The Federal Reserve will require institutions to use the scenarios in both the stress tests conducted as part of their capital plans and in the stress tests that are part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Federal Reserve expects to release the scenarios at 4 p.m. EST on Thursday, November 15.

Institutions will be required to submit their capital plans no later than January 7, 2013.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

Federal Reserve Bank of San Francisco
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Attachment: [Comprehensive Capital Analysis and Review 2013 Summary Instructions and Guidance \(PDF\)](#)

[Capital Plan Review 2013 Summary Instructions and Guidance \(PDF\)](#)