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

November 30, 2011

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

Federal Reserve Board Issues Final Rule on Annual Capital Plans, Launches 2012 Review

The Federal Reserve Board on November 22, 2011 issued a final rule requiring top-tier U.S. bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans for review.

Also, the Federal Reserve launched the 2012 review, issuing instructions to the firms, including the macroeconomic and financial market scenarios the Federal Reserve is requiring institutions to use to support the stress testing used in their capital plans. As a part of the review, known as the Comprehensive Capital Analysis and Review (CCAR), the Federal Reserve in 2012 will carry out a supervisory stress test based on the same stress scenario provided to the firms to support its analysis of the adequacy of the firms' capital.

The aim of the annual capital plans, which build on the CCAR conducted earlier this year, is to ensure that 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. Institutions will be expected to have credible plans that show they have sufficient capital so that they can continue to lend to households and businesses, even under adverse conditions, and are well prepared to meet regulatory capital standards agreed to by the Basel Committee on Banking Supervision as they are implemented in the United States. Boards of directors of the institutions will be required each year to review and approve capital plans before submitting them to the Federal Reserve.

Under the final rule, the Federal Reserve annually will evaluate institutions' capital adequacy, internal capital adequacy assessment processes, and their plans to make capital distributions, such as dividend payments or stock repurchases. The Federal Reserve will approve dividend increases or other capital distributions only for companies whose capital plans are approved by supervisors and are able to demonstrate sufficient financial strength to operate as successful financial intermediaries under stressed macroeconomic and financial market scenarios, even after making the desired capital distributions.

In addition to issuing the final rule, the Federal Reserve Board on November 22, 2011 issued instructions outlining the information the Federal Reserve is seeking from the firms and the analysis the Federal Reserve will do for the CCAR in 2012. There are two sets of instructions: one for the 19 firms that participated in the CCAR in 2011, the other for 12 additional firms with at least $50 billion in assets that have not previously participated in a supervisory stress test exercise. The level of detail and analysis expected in each institution's capital plan will vary based on the company's size, complexity, risk profile, and scope of operations.

The instructions include a supervisory stress scenario that will be used by all of the firms and the Federal Reserve to analyze firms' capital needs to withstand such a scenario while continuing to act as a financial intermediary. The supervisory stress scenario is not the Federal Reserve's forecast for the economy, but is designed to represent an outcome that, while unlikely, may occur if the U.S economy were to experience a deep recession while at the same time economic activity in other major economies were also to contract significantly. For the 19 firms that participated in the CCAR in 2011, the Federal Reserve will conduct a supervisory stress test using internally developed models to generate loss estimates and post-stress capital ratios.

In addition to the macroeconomic scenario provided by the Federal Reserve, the six largest firms will be required to estimate potential losses stemming from a hypothetical global market shock. The global market shock will be based on market price movements seen during the second half of 2008, a time of significant volatility, with adjustments made to incorporate potential sharp market price movements in European sovereign and financial sectors.

Firms' capital adequacy, and their plans to make capital distributions, will be assessed against a number of criteria, including projected performance under the stress scenarios provided by the Federal Reserve and the institutions' internal scenarios. After evaluating the institutions' submissions, the Federal Reserve will publish the results of the supervisory stress tests for each of the 19 institutions including the results of the market shock for the six institutions with large trading operations.

Institutions will be required to submit their capital plans by January 9, 2012.

The capital planning requirements are consistent with the Federal Reserve's obligations to impose enhanced capital and risk-management standards on large financial firms under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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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Attachments: Questions-and-Answers (PDF)

Federal Register Notice, Capital Plan Final Rule (PDF)

Federal Register Notice, Data Collection (PDF)

Instructions for 19 Firms (PDF)

Instructions for Other Firms (PDF)