December 12, 2014

BY ELECTRONIC MAIL

Subject: Enhancements to Federal Reserve Projected Capital

Dear Sir or Madam,

Each year, as new data or other information become available, the Federal Reserve makes enhancements to its independent models and processes used for the supervisory stress tests required under the Dodd-Frank Wall Street Reform and Consumer Protection Act.\(^1\) One key area of enhancement the Federal Reserve has made this year is in the model it uses to project regulatory capital and capital ratios ("supervisory capital model"), incorporating more detailed data now available on regulatory reports regarding the revised regulatory capital framework implementing Basel III, such as reports from those bank holding companies that became subject to the framework on January 1, 2014.\(^2\) The purpose of this letter is to notify the firms participating in the upcoming Comprehensive Capital Analysis and Review (CCAR) of enhancements to certain aspects of the Federal Reserve’s model for projecting capital levels and ratios.\(^3\)

**Main model enhancements**

The Federal Reserve has made several modeling enhancements to better align its supervisory capital model projections with the revised regulatory capital framework and related accounting guidance. The enhancements will primarily affect aspects of the capital calculation relating to taxes and accumulated other comprehensive income (AOCI). The enhancements will affect supervisory estimates of both the regulatory capital ratios and the tier 1 common ratio.\(^4\)

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\(^1\) See 12 USC 5365(i)(1).

\(^2\) See 12 CFR part 217.

\(^3\) In addition to enhancements to the supervisory capital model or other models, a number of other factors will affect year-over-year changes in projected tier 1 common and regulatory capital ratios. Those factors include changes in the supervisory scenarios, bank holding companies’ recent performance, portfolio composition, and business mix at the “as-of” date of the stress test, any material restatement of prior regulatory reports, and the overall quality of regulatory data submitted by all participating bank holding companies. Combined, these factors could have material effects on bank holding companies’ projected capital ratios each year without any change in supervisory models.

\(^4\) The regulatory capital ratios include the common equity tier 1 risk-based capital ratio, tier 1 risk-based capital ratio, total risk-based capital ratio, and tier 1 leverage ratio. Tier 1 common capital and the tier 1 capital are...
Main model enhancements include:

- Differentiating AOCI items that are not subject to transition arrangements in the revised regulatory capital framework from those that are subject to transition;

- Refining the calculation of future taxable income used to determine whether a deferred tax asset will be realizable in the future based on the type of deferred tax asset; and

- Projecting changes in valuation allowances for net deferred tax assets based on the macroeconomic scenarios, in response to changes in the treatment of deferred tax assets in the revised regulatory capital framework.

These enhancements incorporate data currently available on the FR Y-14 and FR Y-9C regarding the calculation of regulatory capital ratios under the revised regulatory capital framework that allow the Federal Reserve to better differentiate between different types of deferred tax assets and AOCI.