



**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION  
AND REGULATION

February 3, 2017

Subject: 2017 Horizontal Capital Review for Large and Noncomplex Firms

Dear Sir or Madam,

The Board recently adopted amendments to its capital plan rule.<sup>1</sup> As a result, bank holding companies and U.S. intermediate holding companies of a foreign banking organization that are large and noncomplex (LNC firms) will no longer be subject to a qualitative assessment of their capital plans in the Comprehensive Capital Analysis and Review (CCAR), will no longer be subject to an objection by the Board on qualitative grounds in the CCAR process, and will be subject to reduced regulatory reporting requirements.<sup>2</sup> In place of the CCAR qualitative assessment, the Federal Reserve will assess the strength of each LNC firm's capital planning processes through a narrow and more targeted horizontal review of specific areas of capital planning, referred to as the Horizontal Capital Review (HCR), which will begin in the third quarter of 2017. The HCR will be conducted as part of the normal supervisory process, and any supervisory findings and concerns with the LNC firms' capital planning processes will be addressed through supervisory communications.

LNC firms will remain subject to the quantitative assessment in CCAR, which evaluates a firm's ability to meet its capital requirements under stress. As in past years, LNC firms are required to submit their capital plans to the Board and the appropriate Reserve Bank by April 5, 2017, and the Federal Reserve will continue to evaluate the capital adequacy of those plans through a

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<sup>1</sup> See Amendments to the Capital Plan and Stress Test Rules, [available at www.federalreserve.gov/newsevents/press/bcreg/bcreg20170130a1.pdf](http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20170130a1.pdf). As provided in the final rule that was adopted by the Board, the amendments to the capital plan rule become effective 30 days after publication in the Federal Register, which is expected to occur shortly.

<sup>2</sup> Under the capital plan rule, a firm is large and noncomplex if it has total consolidated assets of at least \$50 billion but less than \$250 billion, average nonbank assets of less than \$75 billion, and has not been identified as global systematically important bank holding companies ("GSIB") pursuant to subpart H of the Board's Regulation Q (12 CFR part 217, subpart H). The LNC firms required to participate in HCR 2017 are Ally Financial Inc.; American Express Company; BancWest Corporation; BB&T Corporation; BBVA Compass Bancshares, Inc.; BMO Financial Corp.; BNP Paribas USA, Inc.; CIT Group Inc.; Citizens Financial Group, Inc.; Comerica Incorporated; Discover Financial Services; Fifth Third Bancorp; Huntington Bancshares Incorporated; KeyCorp; M&T Bank Corporation; MUFG Americas Holdings Corporation; Northern Trust Corporation; Regions Financial Corporation; Santander Holdings USA, Inc.; SunTrust Banks, Inc.; and Zions Bancorporation.

quantitative assessment.<sup>3</sup> The quantitative assessment of a firm's capital plan includes a supervisory assessment of the firm's ability to maintain capital levels above each minimum regulatory capital ratio, after undertaking all capital actions included in its capital plan, under baseline and stressful conditions throughout the nine-quarter planning horizon. Before public disclosure of the quantitative results, the Federal Reserve will provide a LNC firm with the results of its post-stress results capital analysis, allowing the opportunity for a one-time adjustment to planned capital distributions. The Board will continue to publicly announce a decision to object or not object to a firm's capital plan on a quantitative basis, which is expected to be published on or before June 30, 2017. If a firm receives an objection to its capital plan based on a quantitative assessment, the firm may not make any capital distributions other than those to which the Federal Reserve has indicated in writing its non-objection.<sup>4</sup> The firm may, however, choose to resubmit its plan in advance of the following year's quantitative assessment.<sup>5</sup>

Additionally, with prior notice to the Federal Reserve, firms may make certain capital distributions that exceed the amount in their capital plan if the firm is well-capitalized and performance is consistent with expected conditions (de minimis exception). The recent amendments to the capital plan rule will modify the de minimis exception in two ways.<sup>6</sup> First, the annual aggregate amount of such distributions will be reduced from a maximum of 1.00 percent of tier 1 capital to 0.25 percent of tier 1 capital. The amendments to the capital plan rule also include a blackout period for any incremental capital distribution requests, including requests that fall under the de minimis exception. To ensure that the results of the quantitative assessment are as accurate and complete as possible, firms are not permitted to submit such notices or submit requests during the quarter when CCAR is being conducted (the second quarter of the calendar year).

LNC firms also are no longer subject to certain regulatory reporting requirements. For example, LNC firms are no longer required to complete certain sub-schedules of the FR Y-14 reports.<sup>7</sup> In addition, for sub-schedules of the FR Y-14Q and FR Y-14M that contain materiality thresholds, LNC firms are now subject to higher thresholds, and are not required to report sub-schedules if that threshold is not met.<sup>8</sup> In order to not penalize a firm that relies on a materiality threshold, if

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<sup>3</sup> 12 CFR 225.8(e)(1)(ii), 12 CFR 225.8(f)(1). BNP Paribas USA, Inc. is a newly formed intermediate holding company and is required to submit a capital plan under the capital plan rule; however, BNP Paribas USA, Inc., will not be subject to a quantitative assessment in 2017.

<sup>4</sup> 12 CFR 225.8(f)(2)(iv).

<sup>5</sup> 12 CFR 225.8(e)(4)(ii).

<sup>6</sup> See Amendments to the Capital Plan and Stress Test Rules, available at [www.federalreserve.gov/newsevents/press/bcreg/bcreg20170130a1.pdf](http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20170130a1.pdf).

<sup>7</sup> Specifically, the firms are no longer required to submit the Securities OTTI methodology sub-schedule, Securities Market Value source sub-schedule, Securities OTTI by security sub-schedule, the Retail repurchase sub-schedule, the Trading sub-schedule, Counterparty sub-schedule, and Advanced RWA sub-schedule. Large and noncomplex firms are still required to report line item 138 of the income statement, as that line item is currently derived from the retail repurchase sub-schedule. The revised instructions for the FR Y-14A Schedule A (Summary) schedule reporting form are available on the Board's public website.

<sup>8</sup> The FR Y-14's definition of a "material portfolio" for LNC firms is a portfolio with asset balances greater than either (1) \$5 billion, or (2) 10 percent of tier 1 capital, each measured as an average for the four quarters preceding the reporting quarter.

a firm's portfolio is missing data because it does not meet the materiality threshold, the Federal Reserve will apply the median loss rate to the portfolio, based on the estimates of other firms. However, if a firm's submitted data quality is deemed too deficient to produce a supervisory model estimate for a particular portfolio, the Federal Reserve may assign a high loss rate (e.g., 90th percentile) or a conservative PPNR rate (e.g., 10th percentile).

Finally, LNC firms will no longer be required to submit FR Y-14A supporting documents and other supporting information as part of the supplementary instructions. Instead, this information will be requested through a separate and forthcoming letter, based on the scope of the HCR.

All questions from LNC firms should be addressed through the secure HCR Communications mailbox, at [hcr.communication@ny.frb.org](mailto:hcr.communication@ny.frb.org).