

# Comprehensive Capital and Analysis Review and Dodd-Frank Act Stress Tests Questions and Answers

October 2018

Board of Governors of the Federal Reserve System

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The Federal Reserve conducts the annual Comprehensive Capital and Analysis Review (CCAR) exercise to assess capital positions and planning practices of large firms consistent with Regulation YY (12 CFR part 252) and the capital plan rule (12 CFR 225.8).<sup>1</sup> The Federal Reserve conducts a quantitative assessment of firms' capital positions in CCAR using the Dodd-Frank Act stress tests (DFAST) as implemented in Regulation YY.<sup>2</sup> The Federal Reserve also collects information relevant to the CCAR and DFAST exercises on the FR Y-14 reports.<sup>3</sup>

Federal Reserve staff provides answers to questions from firms related to CCAR and DFAST on an ongoing basis to assist with the interpretation of reporting instructions and related regulations and supervisory guidance. These questions and answers are provided directly to all firms subject to CCAR and DFAST and published on the Federal Reserve's website to facilitate transparency and consistency of interpretation and application of related rules and guidance.

These questions and answers:

- **Include generally applicable questions asked by firms subject to CCAR and DFAST.** The questions and answers may not apply to every firm subject to CCAR and DFAST. Responses provided in this publication apply for purposes of CCAR and DFAST and are not necessarily applicable to other Board regulations or regulatory reports.
- **Apply to requirements and materials available at that time.** The responses are based on information provided to and available to Federal Reserve staff at the time of the submission of the question. A response date is included to help provide reference to the applicable regulatory requirements and associated forms and instructions. Responses may be superseded by subsequent regulations and communications.
- **Include questions submitted on or after August 1, 2017.** Earlier questions and responses may be made publicly available as applicable and if referenced by a current question. The report does not include questions or responses for which confidential treatment was granted.

## CCAR Q&As by topic categories

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<sup>1</sup> For more information on the Federal Reserve's CCAR assessments and related publications, see [www.federalreserve.gov/supervisionreg/ccar.htm](http://www.federalreserve.gov/supervisionreg/ccar.htm).

<sup>2</sup> For more information on the Federal Reserve's implementation of Dodd-Frank Act stress tests, see [www.federalreserve.gov/supervisionreg/dfa-stress-tests.htm](http://www.federalreserve.gov/supervisionreg/dfa-stress-tests.htm).

<sup>3</sup> The Capital Assessments and Stress Testing information collection (FR Y-14) consists of the FR Y-14A, Q, and M reports. There is also a separate FR Y-14 Q&A publication. See information on FR Y-14 and the related Q&A process: <https://www.federalreserve.gov/publications/y-14-qas.htm>.

## CCAR Q&As

### General

**Q (GEN0198):** The Capital Plan Rule sets forth certain restrictions on capital distributions. Under the rule, a capital distribution means “a redemption or repurchase of any debt or equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum regulatory capital ratio, and any similar transaction that the Federal Reserve determines to be in substance a distribution of capital.” A BHC subject to the Capital Plan Rule (the “Capital Plan Filer”) is in the process of divesting a lower-tier BHC subsidiary over a number of quarters, which will result in US GAAP deconsolidation of the lower-tier BHC prior to complete divestiture. Following the deconsolidation, the lower-tier BHC’s capital instruments would not count as capital instruments for the Capital Plan Filer under Regulation Q, no instrument issued by the lower-tier BHC would be eligible for inclusion in the numerator of any minimum regulatory capital ratio of the Capital Plan Filer, and distributions on the lower-tier BHC’s capital instruments would not result in a change in the Capital Plan Filer’s consolidated capital. Could the FRB please confirm that in this case capital distributions by the lower-tier BHC would no longer be treated as capital distributions for the purposes of the Capital Plan Filer’s capital plan?

**A:** The lower-tier BHC’s capital distributions would not be treated as capital actions for the purposes of the Capital Plan Filer’s capital plan. **(FRB Response: October 12, 2018)**

**Q (GEN0197):** Rule 12 CFR 225.8(e)(4) stipulates that “A bank holding company must update and re-submit its capital plan to the appropriate Reserve Bank within 30 calendar days.” If “the bank holding company determines there has been or will be a material change in the bank holding company’s risk profile, financial condition, or corporate structure since the bank holding company last submitted the capital plan to the Board....” If a BHC projects in its capital plan that a partial divestiture of a subsidiary will lead to deconsolidation under US GAAP of the subsidiary at a specific quarter during the forecast period under the baseline scenario, and the timing of that deconsolidation is subsequently accelerated to an earlier quarter due to a governance change at the subsidiary, with all other capital impacts and projections remaining substantially unchanged, does the earlier deconsolidation of the subsidiary constitute a material change under 12 CFR 225.8(e)(4)?

**A:** Earlier deconsolidation does not constitute a material change. **(FRB Response: October 12, 2018)**

**Q (SUM0118):** Lines CAP 109, CAP 126, CAP 127 and CAP 128 on the Capital Worksheet within the FRY-14A Summary Template requests data related to potential net operating loss (“NOL”) carrybacks. Given the recently enacted federal tax reform, we believe these lines should be completed with zero amounts but would like clarification as to the proper amounts to be used for these lines.

**A:** Firms should complete the FR Y-14A Summary template in accordance with the FR Y-14 submission instructions and determine the applicability and/or appropriate values for each field. **(FRB Response: March 29, 2018)**

**Q (GEN0192):** If a BHC is planning on including in its capital plan an issuance of Tier 1 qualifying preferred equity in the CCAR 2018 window (3Q18-2Q19) and use the proceeds of

that issuance to repurchase an equivalent dollar amount common shares (making the repurchase of the common contingent on the issuance of preferred) we would have three questions. Assume the firm has additional non-contingent common share repurchases in its capital plan:

1. If the BHC specifies in its capital plan that the timing of the preferred issuance would be contingent on market conditions, should the BHC show the issuance in the first quarter of the CCAR window (3Q18) with the understanding that the timing may come later in the CCAR window?
2. How would the ongoing quarterly assessment of capital action activity consider the possibility of a delay in the preferred issuance? Would the Federal Reserve bifurcate these linked transactions from the non-contingent common share repurchases?
3. If the preferred issuance does not happen due to adverse actual market conditions, would the firm be expected to reduce its non-contingent common share repurchases by the amount of the preferred offering since the net effect on total Tier 1 capital would be zero and the effect on CET1 would be positive?

**A:** A firm should include its planned issuance in the quarter when the firm plans to make the issuance. A firm that does not make an issuance included in its capital plan for a given quarter would have to reduce any distributions such that its capital distributions for that class of capital do not exceed those in its capital plan as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter. See 12 CFR § 225.8(g)(3). **(FRB Response: March 27, 2018)**

**Q (GEN0191):** We note in the instructions that a BHC should not reflect the adoption of new accounting standards in its projection unless the firm has already adopted the accounting standard for financial reporting purposes. For ASU 2017-18 Premium Amortization on Purchases Callable Debt Securities, the BHC is required to begin reporting under this standard on January 1st, 2019. Will the FRB grant an exemption to allow the forecast to reflect adherence with the appropriate accounting standards that will be in force during the planning horizon?

**A:** No. If a firm has not adopted the referenced accounting standards as of December 31, 2017, it should not reflect the adoption of the accounting standard for a projected period in its FR Y-14 submission for CCAR 2018. **(FRB Response: March 13, 2018)**

**Q (GEN0190):** The response to Q&A GEN0184 states,

“Each firm should include in its capital plan a discussion of any expected changes to the firm's business plan that are likely to have a material impact on the firm's capital adequacy. A firm may also provide information on material changes to its business plan that occurred in the fourth quarter of 2017.”

Can you confirm where firms should report this activity, as the instructions for FR Y-14A Schedule F.1 indicate firms should, “In quarters in which no change in business plan occurs, report zero for all fields?” However, a material business plan change executed in the last quarter prior to the projections period reported on Schedule A could result in a discrepancy in levels between certain items reported as actuals on the Y-9C and reported as projections on the Y-14A. Specifically, should such reconciling items be reflected in Y-14A Schedule F as “quarter-over-quarter changes in reported Summary schedule items that are attributable to business plan changes?”

**A:** For purposes of the Board’s stress testing rules (12 CFR part 252, subparts E and F), starting regulatory capital ratios as estimated by each firm and by the Federal Reserve are the same as those reported by the firm on the 4Q17 FR Y-9C report (as of December 31, 2017).

In the event that a firm’s December 31, 2017 FR Y-9C is not reflective of its risk profile and business activities, the firm should provide a description of the business plan changes that affect its starting data in its capital plan narrative. For example, if a firm sought to report the impact of business plan changes on total assets for the leverage ratio as reported on the 4Q2017 FR Y-9C, then that firm should include in its capital plan submission a description of the incremental impact of the business plan change on components of total assets for the leverage ratio. The Federal Reserve may request that the firm provide additional information about any description of material changes to the starting data, including PQ0 incremental impacts on the items in the FR Y-14A Summary schedule Balance Sheet (A.1.b), Capital Worksheet (A.1.d), Income Statement (A.1.a), and Standardized RWA (A.1.c.1) worksheet. **(FRB Response: March 13, 2018)**

**Q (GEN0189):** Should the base erosion and anti-abuse tax (“BEAT”) component of the 2017 Tax Cuts and Jobs Act, which becomes effective on January 1, 2018, be reflected in firms’ capital stress test projections? The BEAT law, as drafted, contains a number of inconsistencies and technical uncertainties with respect to its scope and implementation. Outside counsel and external advisors have had material differences in views as to how certain BEAT provisions should be interpreted. As a result, different firms would likely interpret the provisions differently—potentially leading to inconsistent application of the BEAT. Until the US Treasury issues interpretive regulatory guidance, it is unfeasible for firms to determine the actual forward-looking impacts of BEAT with reasonable certainty or consistency of compliance. As an alternative to excluding the BEAT altogether, would the Board of Governors of the Federal Reserve (“FRB”) consider providing a transition period in 2018? Firms participating in the Comprehensive Capital Analysis and Review (“CCAR”) could submit their capital plans and stress testing results without taking BEAT into account in their quantitative stress loss projections and instead describe the effect of BEAT in the qualitative narrative of their submissions? CCAR participants would incorporate all changes of the Tax Cuts and Jobs Act other than the BEAT in their quantitative submissions. A transition period would allow time for Treasury to issue necessary guidance and for firms to build the infrastructure and systems necessary to calculate their base erosion percentage and potential BEAT liability. Without a transition period, firms may apply the BEAT inconsistently in performing their stress test exercises and the results that the FRB discloses may be misleading or incorrect. This approach would be consistent with the FRB’s provision of transition periods for new laws in other contexts. Please confirm whether the Federal Reserve will take one of these approaches for CCAR 2018 or, if not, please provide detailed instructions for how CCAR firms should address the BEAT in both the quantitative and qualitative portions of their CCAR submissions.

**A:** The Federal Reserve published a letter containing a description of key enhancements to the supervisory models, including those related to the change in the tax law, on March 2, 2018. As suggested by the letter, the supervisory models for DFAST 2018 have not been adjusted to account for the base erosion and anti-abuse tax component of the Tax Cut and Jobs Act (TCJA).

Per the 2018 CCAR instructions, firms must address the impact of the TCJA in their financial statements and regulatory reports, as well as CCAR 2018 projections, as applicable. We understand that the U.S. Department of the Treasury intends to issue further guidance on how to implement portions of the TCJA. As discussed in SR letters 15-18 and SR 15-19,

understanding and documenting a range of potential outcomes provides insight into the inherent uncertainty and imprecision around pro forma capital results. To that end, a firm should reflect the TCJA in their CCAR 2018 projections on a “best efforts” basis, and discuss in its capital plan the sensitivity of its projections to uncertainty associated with the implementation of the TCJA. In addition, although firms’ capital plans should be comprehensive and are required to address the TCJA, the first day letter sent to each LISC and large and complex firm on February 14th, 2018, did not include tax modeling within its areas of scope. **(FRB Response: March 9, 2018)**

**Q (GEN0188):** The federal banking agencies published an NPR on 9/27/17 to propose simplifying certain regulatory capital rules (“NPR to Simplify”) for organizations not subject to the advanced approaches capital rule. As a result of the NPR to Simplify, the agencies published a final rule on 11/21/2017 to extend the current regulatory treatment of certain items (“Final Rule to Extend”) until the NPR to Simplify is finalized. Should firms assume that the Final Rule to Extend remains in effect through the entire projection horizon?

**A:** Please see [page 2](#) of the 2018 CCAR instructions for a discussion of how the October 27, 2017 notice of proposed rulemaking regarding simplifications to the capital rule pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 and the November 21, 2017 final rule regarding the retention of certain existing transition provisions for banking organizations that are not subject to the advanced approaches capital rules should be treated for purposes of the 2018 CCAR exercise. **(FRB Response: February 21, 2018)**

**Q (GEN0162):** DTA write-offs: How should DTA write-offs impact IHC PPNR forecasting?

**A:** DTA write-offs should not be included in PPNR. **(FRB Response: February 14, 2018)**

**Q (GEN0186):** Does the Capital Plan to be filed in April need to include the TLAC term sheet?

**A:** TLAC term sheets are not required to be included in firms’ capital plans, but they may be included as additional information, at a firm’s discretion. **(FRB Response: January 23, 2018)**

**Q (GEN0185):** In a Dec 15th communication from the Federal Reserve, it was clarified that the global market shock (GMS) would use an “as of” date from the week of Dec 4th. For CCAR 2017, the counterparty default scenario component used the same date as the GMS. Can you confirm that this will be the case again for CCAR 2018 and we should also use the same date from the week of Dec 4th for the counterparty default scenario analysis?

**A:** Yes, use the same date from the week of December 4, 2017 for the counterparty default scenario analysis. **(FRB Response: January 18, 2018)**

**Q (GEN0182):** Should a firm reflect the accounting changes in revenue recognition that the firm will implement on January 1, 2018 for CCAR 2018?

**A:** For the purposes of CCAR 2018, a firm should not reflect the adoption of new accounting standards in its projections unless the firm adopts the new standards prior to December 31st of the prior calendar year, in this case December 31, 2017. **(FRB Response: December 8, 2017)**

**Q (GEN0184):** Ahead of the leverage ratios becoming effective for FBO’s on January 1, 2018, we have several divestitures and/or asset migrations which will occur over the course of Q4 2017. This will distort our average assets in Q4 which will no longer be reflective of our ongoing business model in 2018 and beyond. How does the FRB account for these material business changes in terms of CCAR modelling of average assets over the 9 quarter projection period and does the FR Y-14Q Schedule D.6 provide sufficient information to make such adjustment?

**A:** For purposes of the Board’s stress testing rules (12 CFR part 252, subparts E and F) and CCAR 2018, each firm and the Federal Reserve will estimate projected losses, net income, and pro forma capital levels and regulatory capital ratios based on data as of December 31, 2017. For purposes of these rules, the firm’s starting regulatory capital ratios will be the same as those reported on the 4Q17 FR Y-9C report (as of December 31, 2017). Each firm should include in its capital plan a discussion of any expected changes to the firm’s business plan that are likely to have a material impact on the firm’s capital adequacy. A firm may also provide information on material changes to its business plan that occurred in the fourth quarter of 2017. Upon reviewing this information, the Federal Reserve may request additional information. In making its projections, the Federal Reserve will take into account this additional information and may incorporate it if it is likely to have a material impact on a firm’s capital adequacy and funding profile. **(FRB Response: December 6, 2017)**

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### Adjustment to Capital Plan

**Q (CAP0011):** The Federal Reserve’s CCAR 2018 Assessment Framework and Results document (the “2018 CCAR Release”), published on June 28, 2018, indicates that BHCs “may re-submit their capital plans before the next stress test cycle and request additional distributions.” We respectfully request guidance on the process and standards for such resubmissions, including on the following matters: (i) Is there a time period within which such a resubmission should be filed? (ii) Beyond an updated Y-14A Reg Cap Instruments template, are there any other Y-14A templates that should be included with the resubmission? (iii) What standards will the Federal Reserve apply in reviewing such resubmissions? (iv) How quickly does the Federal Reserve expect to act on such a resubmission? (v) How should a resubmission be filed with the Federal Reserve?

**A:** The Federal Reserve’s capital plan rule (12 CFR 225.8) sets forth procedures pursuant to which a firm may request prior approval from the Board, or the appropriate Reserve Bank with concurrence of the Board, to make capital distributions in excess of the amount of capital distributions included in the firm’s capital plan for which a non-objection was issued. Under 12 CFR 225.8(g)(4), a request for prior approval shall contain

1. the firm's current capital plan or an attestation that there have been no changes to the capital plan since it was last submitted to the Federal Reserve;
2. the purpose of the transaction;
3. a description of the capital distribution, including for redemptions or repurchases of securities, the gross consideration to be paid and the terms and sources of funding for the transaction, and for dividends, the amount of the dividend(s); and
4. any additional information requested by the Board or the appropriate Reserve Bank (which may include, among other things, an assessment of the firm's capital adequacy under a revised stress scenario provided by the Federal Reserve, a revised capital plan, and supporting data).

The capital plan rule also sets forth circumstances under which a firm would be required to update and resubmit its capital plan (12 CFR 225.8(e)(4)), including if the firm determines there has been or will be a material change in the firm’s risk profile, financial condition, or corporate structure since the firm last submitted the capital plan. **(FRB Response: August 1, 2018)**

**Q (GEN0196):** A firm subject to CCAR has a subsidiary that is a BHC and that has issued regulatory capital instruments to third parties (the “Subsidiary BHC Capital Instruments”).

The CCAR firm recognizes the Subsidiary BHC Capital Instruments in its capital, subject to minority interest limitations. Accordingly, distributions on the Subsidiary BHC Capital Instruments such as dividends, redemptions and repurchases are “capital distributions” under the Federal Reserve’s Capital Plan Rule. The CCAR firm’s planned capital actions for its 2018 capital plan include dividends on, as well as redemptions and/or repurchases of, the Subsidiary BHC Capital Instruments. The CCAR 2018 Instructions address approvals relating to capital distributions, as well as permitted adjustments to a CCAR firm’s planned capital actions. The CCAR 2018 Instructions provide, in relevant part:

1. “For purposes of CCAR 2018, if a firm receives a non-objection to its capital plan, the firm generally may make the capital distributions included in its capital plan submission beginning on July 1, 2018, through June 30, 2019, without seeking prior approval from or providing prior notice to the Federal Reserve.”
2. “If a firm has fully reduced its planned capital distributions to zero in the second through ninth quarters of the planning horizon, the firm may increase its planned issuance of common stock in the third quarter of the planning horizon.”

We are uncertain whether the references to the “firm” in these excerpts from the CCAR 2018 Instructions include a consolidated subsidiary of the CCAR firm and related actions the subsidiary may take with respect to its capital instruments that are recognized as minority interest by the CCAR firm.

- a. Subsidiary BHC-Level Approvals and Disclosures Assuming (x) the CCAR firm receives a non-objection to its 2018 capital plan and (y) at the time of the redemption and/or repurchase, the subsidiary BHC is a consolidated subsidiary of the CCAR firm such that the Subsidiary BHC Capital Instruments are recognized in the CCAR firm’s capital as minority interest, may the subsidiary BHC redeem and/or repurchase the Subsidiary BHC Capital Instruments in accordance with the CCAR firm’s 2018 capital plan between July 1, 2018 and June 30, 2019 without seeking prior approval from or providing prior notice to the Federal Reserve pursuant to SR 09-4? In addition, assuming the CCAR firm receives a non-objection to its 2018 capital plan, after the Federal Reserve announces CCAR results in June 2018, may the subsidiary BHC disclose the planned capital actions in the CCAR firm’s 2018 capital plan involving the Subsidiary BHC Capital Instruments?
- b. Adjustments to Planned Capital Actions If a CCAR firm has fully reduced the planned capital distributions on the regulatory capital instruments it has issued directly to zero, but has not reduced the planned capital distributions on the Subsidiary BHC Capital Instruments to zero, may the CCAR firm increase its planned issuance of common stock in third quarter of the planning horizon when making adjustments to its planned capital actions? What if the subsidiary BHC had already made capital distributions on the Subsidiary BHC Capital Instruments during the second quarter of the planning horizon? Would the answer depend on whether the planned capital actions of the CCAR firm and the planned capital distributions on the Subsidiary BHC Capital Instruments would involve different types of investors—for example, if the CCAR firm were a U.S. IHC and its planned capital actions involved the FBO parent but the planned capital distributions on the Subsidiary BHC Capital Instruments would be paid to unaffiliated third-party investors? Would the answer depend on other factors, such as the relative significance of the Subsidiary BHC Capital Instruments to the capital of the CCAR firm or whether the CCAR firm agreed, starting as of the end of the second quarter of the planning horizon, to

exclude a portion of the minority interest from its capital such that the planned distributions on the Subsidiary BHC Capital Instruments would have no effect on the CCAR firm's capital?

If a CCAR firm has concerns about the interplay of the instructions regarding adjustments to a CCAR firm's planned capital actions and distributions on Subsidiary BHC Capital Instruments, whom should the CCAR firm contact?

**A:** The DFAST results will be announced on June 21, 2018. Any capital distribution that could affect a bank holding company's consolidated capital is considered a capital distribution for purposes of the capital plan rule. See 12 CFR 225.8(d)(4). **(FRB Response: June 13, 2018)**

**Q (GEN0181):** Within the four quarter CCAR non-objection window, if a BHC's non-objectioned capital actions include calling and issuing related capital instruments that have zero net impact to Tier 1 or Tier 2 capital (e.g., a preferred stock call and replace), but the BHC later decides not to call the outstanding capital instrument, is the BHC still required to issue the replacement capital instrument included in the capital plan?

**A:** Generally, a firm would not be required to issue replacement capital under the capital plan rule so long as the dollar amount of the firm's net distributions relating to the relevant class of capital (e.g., additional tier 1 capital) is no greater than the dollar amount of net distributions relating to the class of capital included in its capital plan, as measured on a quarterly basis. (See the net distribution limitation set forth in 12 CFR 225.8(g)(3).) If the firm is otherwise in compliance with the net distribution limitation, it would not be required to issue replacement capital. **(FRB Response: November 13, 2017)**

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**DFAST**

**Q (DST0021):** The Dodd-Frank Act Stress Test 2017: Supervisory Stress Test Methodology and Results document provides an overview the FRB's historical simulation approach for modeling Operational Risk. With respect to this model, the document states that:

- The historical simulation approach models the loss frequency and loss severity separately. The tails of the loss severity and frequency distributions are informed by historical industry loss severity and frequency scaled to the assets of individual BHCs, while the bodies of these distributions are informed by each BHC's historical loss severity and frequency. The distribution of aggregate losses is then simulated by repeatedly drawing the 9-quarter event frequency from this frequency distribution, and the severity of those events from the severity distribution.

Can the FRB provide additional clarity on how they simulate the severity from the severity distribution, for example, is the:

- Severity of each event is simulated separately from a distribution of dollar-for-each-event; or
- Severity of all events in a particular forecast quarter is considered the same and nine different quarterly severities are simulated; or
- Severity of all events in a 9-quarter forecast period is considered the same and a single 9-quarter severity is simulated; or
- Is an alternative approach used?



**A:** Please refer to [pages 73 and 74](#) of the *Dodd-Frank Act Stress Test 2018: Supervisory Stress Test Methodology and Results* for a description of the Federal Reserve’s supervisory modeling approach to estimate losses related to operational-risk events. **(FRB Response: August 6, 2018)**

**Q (DST0020):** We have not yet received guidance for the 2018 DFA Mid-Cycle Company-Run Stress Test. Can you please confirm whether the DFA Mid-Cycle Company-Run Stress Test will be due by October 5, 2018, and whether the requirements will be the same as the 2017 DFAST Mid-Cycle Company-Run Stress Test?

**A:** Instructions regarding the 2018 DFA Mid-Cycle Company Run Stress Test will be communicated shortly and will include the deadline for submission and requirements. **(FRB Response: August 1, 2018)**

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Disclosure

**Q (DSC0016):** We are in receipt of your letter dated January 26, 2018 (“the letter”), detailing the calculation of the additional scenario component for use in CCAR 2018 as it applies to 6 IHCs. What information will the FRB include in their public CCAR results disclosure pertaining to the trading & counterparty loss line item? Will the FRB indicate that the results for the 6 IHCs are reflective of an additional scenario component? If so, will the FRB provide the details of the loss rates and the specific Y9-C fields utilized to derive the calculation, as prescribed on page 5 of the letter?

**A:** Consistent with the treatment of the other additional components used in the supervisory stress tests (including the global market shock and counterparty default scenario component), the Federal Reserve identified in the 2018 CCAR summary instructions, and plans to identify in its CCAR results disclosure, those IHCs with significant trading activity that are subject to the market risk component. The 2018 CCAR instructions also identified the loss rates and specific line items of the FR Y-9C used to determine the exposures subject to the market risk component. Please see [pages 10–11](#) of the 2018 CCAR instructions for a discussion of the description and methodology of the market risk component. **(FRB Response: February 21, 2018)**

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Mandatory Elements

No questions for publication.

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Market Shock

**Q (SHK0031):** As a follow up to SHK0030, we seek clarification regarding the following: Given that for certain covered funds, a 100% reduction in Tier 1 capital is already taken as part of the Basel III requirements, can these same positions be effectively removed from the population subjected to P&L loss, similarly affecting the numerator in our Tier 1 Capital calculations, through the GMS, assuming we can identify the duplication at a security level?

Both reductions in capital affect our Tier 1 capital/numerator in our capital ratios, and any removal of duplication will not impact our balances, RWA, or the denominator in our capital ratio forecasting calculations. Please note that the referenced capital deduction for Volcker Covered Funds are based on both Volcker rules as well as the capital rules (which incorporate the T1 capital deduction from Volcker).

**A:** The covered funds are subject to the losses related to the global market shock and applicable deductions under the Federal Reserve’s Regulation Q (capital rule) and Regulation VV (Volcker Rule). The firm should report losses for the covered funds as an instantaneous loss and reduction in capital. The firm should therefore not make any adjustments to the applicable deductions under the Federal Reserve’s Regulation Q and Regulation VV as a result of losses estimated under the global market shock.  
**(FRB Response: April 3, 2018)**

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### Range of Practice and Supervisory Expectations

**Q (RPS0054):** Per the appendix in the FRB’s First Day Letter, the scope for Wholesale, within the Internal Controls and Estimating impact on Capital sections, specifically includes (1) Commercial and Industrial loans and other commercial loans and leases held for investment, and (2) Commercial and Industrial loans, other commercial loans and leases, and commercial real estate loans held-for-sale. However, per the FR Y 14A reporting, other portfolios (e.g. small business scored and business cards which we model and manage through our Business Direct channel) fall within the commercial and industrial loans and other commercial loans umbrella. Should these other portfolios also be included in the “internal controls and estimating impact on capital positions” documentation, consistent with FR Y 14A, or should the Wholesale exposures focus on traditional Commercial and Industrial loans?

**A:** Yes—the other portfolios included within commercial and industrial loans and other commercial loans per the FR Y-14A reporting instructions should be reflected in firms’ capital plan submissions. **(FRB Response: May 3, 2018)**

**Q (RPS0053):** The February 14th first day letter (FDL) does not reflect the wholesale submission including commercial real estate loans (CRE) held for investment (HFI). Please confirm it is not included in the scope of the CCAR 2018 exercise.

**A:** Commercial real estate loans held-for-investment are not included in the scope of the 2018 CCAR exercise. **(FRB Response: March 29, 2018)**

**Q (RPS0052):**

1. Does the scope of the first day letter supersede the documentation submission requirements as defined in the [CCAR 2018 Technical Instructions](#), beginning on p. 151? For example, the FR Y-14 Technical instructions require: Submission of Model Technical Documents for “key models” Audit Reports from internal audit of the capital adequacy process including review of the models and methodologies used in the process Documenting Consideration of Certain Off-Balance Sheet Risks
2. The letter notes “In instances where a firm deems a particular exposure to be immaterial, the firm must submit a justification of its decision not to submit supporting documentation.” May this justification be provided in a workstream’s methodology document?
3. In the past, we have provided a significant amount of CCAR-related Board materials in the CCAR Submission. Can you please confirm that this is not expected this year? We will have the materials available upon request.

**A:**

1. The February 14th first day letter (FDL) does not supersede the FR Y-14A submission requirements. The FDL set forth the areas in scope for the 2018 CCAR exercise. Accordingly, firms are expected to provide the type and level of documentation in support of their capital plan narratives as described in Appendix C of the CCAR 2018 instructions for each of those areas. As in prior years, firms are expected to provide the type and level of documentation in support of the FR Y-14 schedules as described in Appendix C of the CCAR 2018 instructions.
2. Yes, firms may provide the justification for deeming a particular exposure immaterial as part of its submitted workstream methodology documentation.
3. Firms are expected to be able to respond to examiner requests for additional supporting materials, where necessary, during the CCAR 2018 exercise, but are not expected to provide the same level of documentation as part of their CCAR submission. Instead, firms are expected to provide the type and level of documentation in support of their capital plan narratives as described in Appendix C of the CCAR 2018 instructions for each area in scope for the 2018 CCAR exercise, as set forth in the February 14th first day letter.

**(FRB Response: March 9, 2018)****Q (RPS0051):**

1. Are firms expected to provide a separate response to the letter or are firms permitted to respond to the letter within their CCAR submission document that will be filed via Intralinks on April 5, 2018?
2. If a separate response is required, what is the due date of the response? Additionally, does the Federal Reserve have a preferred structure for the response? For example, is the response expected to be structured by SR 15-18 category or by exposure type?
3. How does the Federal Reserve recommend the submission of net interest revenue for the exposure categories listed in the letter relative to the instructions in CCAR 2018 Summary Instructions Appendix C? The categories in the appendix of the February 14 letter are inconsistent with the CCAR Intralinks submission guidance.
  - a. Securities (Appendix combines this with Net Interest Income)
  - b. PPNR-Balance Sheet-RWA (Appendix combines Net Interest Income with Securities).
4. In regard to the appendix, within the “Wholesale credit risk” column, the first row-“Risk Management” and third row-“Incorporating stressful conditions and events” ask for “All” wholesale credit risk exposures. Row two “Internal controls – model validation and independent review of estimation approaches” and row four “estimating impact on capital positions-all sub-areas, as applicable” request only “(1) Commercial & Industrial loans and other commercial loans and leases held for investment; and (2) commercial and industrial loans and leases and commercial real estate loans held-for-sale”. Please define “All” in rows one and three of the “wholesale credit risk exposures” column.
5. In regard to the appendix, within the “Securities and net interest income” column the first row-“Risk Management” and third row-“Incorporating stressful conditions and events” requests “All” securities and net interest income exposures. Row two “Internal controls – model validation and independent review of estimation approaches” and row four “estimating impact on capital positions-all sub-areas, as applicable” request only “(1) credit

cards, (2) commercial & industrial loans; (3) all deposit products; and (4) securities loss estimation. Please clarify what “All” relates to in regards to “Securities and net interest income.”

6. In regard to the appendix, the “Estimating impact on capital positions - all sub areas, as applicable” row includes references to appendix A, D, H and I. In addition to the specific SR 15-18 categories and subcategories referenced in the Appendix, are BHCs also expected to address adherence to the related SR 15-18 appendices as well? For example, PPNR is a significant component of our firm’s “Non-interest income and expense”, but row 4 “estimating impact on capital positions-all sub-areas, as applicable” only requests “Sales and trading”. Is the expectation that the estimated impact on capital resulting from changes to all PPNR categories will be included in the response or only the non-interest income and expense related to sales and trading exposures?
7. In regard to the appendix, Row 2 “Internal controls – model validation and independent review of estimation approaches”, please confirm if model technical documents are required to be submitted through Intralinks for the listed exposure types.
8. Page 3 of The Comprehensive Capital Analysis and Review 2018 Summary Instructions references that the “Federal Reserve will be issuing a letter to LISCC and large and complex firms notifying them of the planned scope of CCAR 2018. In an effort to reduce burden associated with the submission of supporting documentation, firms will only be required to submit documentation related to those elements in scope for this year’s exercise.” Please confirm that the letter that we received on February 14 is the letter referenced in the Summary Instructions. Also, please confirm that supporting documentation is not required, either in response to the first day letter or as part of the firm’s CCAR submission document, for CCAR document submission sections not included in the Appendix.

**A:**

1. No, firms are not expected to provide a separate response to the 2018 CCAR first day letter sent on February 14, 2018. Instead, firms are expected to provide supporting documentation as part of their CCAR submissions to be filed with the Federal Reserve via Intralinks on April 5, 2018.
2. Firms are not expected to provide a separate response to the 2018 CCAR first day letter sent on February 14<sup>th</sup>, 2018.
3. Firms should submit supporting documentation in accordance with the categories described in Appendix C in the CCAR 2018 instructions.
4. The term “all” in rows one and three of the “wholesale credit risk” column refers to all sub-areas of SR letter 15-18 as relevant to wholesale credit risk. In the April 5<sup>th</sup> submission, firms should provide the same level of documentation in support of these two areas of SR letter 15-18 as in prior years.
5. The term “all” in rows one and three of the “securities and net interest income” column refers to all sub-areas of SR letter 15-18 as relevant to securities and net interest income. In the April 5<sup>th</sup> submission, firms should provide the same level of documentation in support of these two areas of SR letter 15-18 as in prior years.
6. As part of the April 5<sup>th</sup> submission, as it relates to areas of SR letter 15-18, firms are only expected to provide documents that relate to the specific areas in scope for the CCAR 2018 as noted in the appendix of the February 14 first day letter.

7. Yes— as part of the April 5<sup>th</sup> submission, firms should provide technical model documents via Intralinks for listed exposures in scope for the CCAR 2018 exercise, as in prior years.
8. The 2018 CCAR first day letter sent on February 14<sup>th</sup>, 2018 is the same letter described on page 3 of the CCAR 2018 instructions. Firms are not required to submit supporting documentation for areas not included in the scope set forth in the first day letter. However, as provided in the first day letter, firms are expected to be able to respond to any examiner request for additional documentation as part of the CCAR 2018 exercise, where necessary.

**(FRB Response: March 9, 2018)**

**Q (RPS0050):** 14-A supporting documentation:

1. For each exposure listed which of the following items as detailed in the CCAR Instructions is required:
  - Policies and Procedures
  - Methodology and model inventory mapping to FR Y-14A
  - Methodology and Process Overview
  - Model technical documents\*
  - Model Validation\*
  - Audit Reports
  - Results Finalization and Challenge Materials

*\*Only items mentioned in first day letter.*
2. For wholesale, please confirm that
  - a. C&I includes: C&I Graded, Small Business, Business and Corporate Card
  - b. Only HFS CRE is expected (HFI is excluded)
3. For Securities and NII:
  - a. Are RWA projections expected for Credit cards, C&I loans, and Securities?
4. MRA documents: Should all normal submission categories be included in MRA remediation documentation or just a document and work papers supporting actions taken to address the MRA?

**A:**

1. Firms are expected to provide the type and level of documentation in support of the FR Y-14 schedules as described in Appendix C of the CCAR 2018 instructions.
2. For the CCAR 2018 exercise and as set forth in the February 14<sup>th</sup> first day letter, C&I includes all lines where a firm has material exposures, material changes in modeling approaches, or material changes in risk profile. Held for investment (HFI) is *not* excluded.
3. Yes.
4. Firms should include all documentation that supports specific actions taken to remediate outstanding supervisory findings.

**(FRB Response: March 9, 2018)**

**Q (RPS0049):** “With regard to the remediation of outstanding supervisory findings, firms should submit documentation summarizing remediation progress for each finding, including comprehensive supporting documentation and work papers for any findings that the firm’s internal audit function has validated and recommends closing.”

Management is concerned on the voluminous size of the audit workpapers causing any issues with the upload, as well as maintaining internal audit program confidentiality from internal bank management. First and foremost, are they required to post all workpapers, including documentations of testing material? There also could be redundancy in what audit will submit for comprehensive workpapers, and what management will submit as part of their response to show oversight of MRIA/MRA remediation progress. Also, a central group manages all regulatory requests. Internal audit is concerned with providing material, and having their methodologies and testing framework visible to management.

**A:** As set forth in the February 14th first day letter, a firm should submit internal audit work papers only in connection with any supervisory finding the firm’s internal audit function has validated and recommends be closed. **(FRB Response: March 9, 2018)**

**Q (RPS0048):**

1. The “CCAR 2018 Day One Letter” does not address exposures for Operational Risk. What are the documentation expectations?
2. The “CCAR 2018 Day One Letter” does not address supporting material requirements for general documentation that has been traditionally submitted, including: committee / board materials, policies and frameworks referenced within the Capital Plan, other enterprise policies, procedures and standards. Is the expectation that firms should continue to provide those documents in the April 5th submission?
3. The “CCAR 2018 Day One Letter” provides specific areas and exposures in scope for CCAR 2018. Is the expectation to submit methodology development and independent review documentation only for those exposures in scope?

**A:**

1. Firms should only submit documentation for operational risk that support actions the firm has taken to date to remediate outstanding supervisory findings pertinent to operational risk.
2. Firms are expected to provide the type and level of documentation in support of their capital plan narratives as described in Appendix C of the CCAR 2018 instructions.
3. Yes—firms are only expected to submit methodology development and independent review documentation for the exposures in scope for the CCAR 2018 exercise.

**(FRB Response: March 9, 2018)**

**Q (RPS0047):** The FR Y-14A instructions have specific supporting documentation requirements and state that “Large and complex firms and LISCC firms should provide the information set forth in this appendix A with their capital plan submission.” On February 14, 2018, the FRB sent a notification letter outlining the supporting documentation requirements for CCAR 2018 but did not clarify whether the supporting documentation detailed in the FR Y-14A instructions was still required. For CCAR 2018 should firms a) only submit supporting documentation described in the February 14 notification letter or b) submit

supporting documentation described in the February 14 notification letter and in the FR Y-14A instructions?

**A:** The February 14th first day letter (FDL) does not supersede the FR Y-14A submission requirements. The FDL set forth the areas in scope for the 2018 CCAR exercise. Accordingly, firms are expected to provide the type and level of documentation in support of their capital plan narratives as described in Appendix C of the CCAR 2018 instructions for each of those areas. As in prior years, firms are expected to provide the type and level of documentation in support of the FR Y-14 schedules as described in Appendix C of the CCAR 2018 instructions. **(FRB Response: March 9, 2018)**

**Q (RPS0046):** In a previously submitted question, we noted that ETD/cleared exposures will be excluded from the Fed’s CDSC reporting requirements for 2018. In recognition of this development, we would like to discuss further, at your convenience, how this may or may not impact supervisory expectations relative to firm’s treatment of such exposures within the development and application of its idiosyncratic scenario. Based on our internal assessments, we believe that the risk of such positions are less material than the outright exposure given the nature of the counterparty mix, as well as, explicit margining practices.

**A:** The response to the previously submitted question was not intended to modify supervisory expectations regarding a firm’s treatment of ETD/cleared exposures under the BHC scenario required under the Board’s capital plan rule. As described in more detail in supervisory guidance SR 15-18, a firm should thoroughly evaluate and consider the inclusion of all its counterparty exposures as part of its risk identification and scenario design process. The results of these processes should determine whether a firm views a specific product as material and necessary for inclusion in the BHC stress loss estimation. **(FRB Response: January 30, 2018)**

**Q (SUM0116):** Could you please provide guidance on the sign usage for OTTI on the Income Statement? For the OTTI Securities by Portfolio schedules, the instructions were updated a few stress tests ago to state: “OTTI values should be stated as positive values”. The instructions for IS-126 and IS-127 make no statement regarding the sign of the submission for these line items. Should we assume that the Securities by Portfolio schedule should be submitted as a positive value, while the Income Statement OTTI to be negative? Or should all OTTI values be submitted as a positive value?

Further, if the OTTI lines on the Income Statement is also to be submitted as a positive, should the formula for IS-128 be updated to subtract the OTTI values, instead of add them?

**A:** For purposes of reporting OTTI values on the FR Y-14A, Schedule A.1.a, Line Items 126 and 127, OTTI gains should be reported as positive values and OTTI losses as negative values. **(FRB Response: January 30, 2018)**

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**Resubmission**

No questions for publication.

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**Scenarios**

**Q (GEN0195):** We have the following questions regarding the response to FAQ GEN0194. We note that the response states, “It is acceptable for firms to use the Federal Reserve’s

severely adverse scenario from a prior year's stress test cycle as a benchmark to assess the severity of the BHC stress scenario.”

- If a firm chooses to calibrate the severity of the current year's BHC Stress scenario to a prior year's Supervisory Severely Adverse scenario, is the firm expected to calibrate the scenario to the most severe Supervisory Severely Adverse Scenario ever issued?
- Can a firm choose to continue the existing practice of calibrating the severity of the BHC Stress scenario to the current cycle's Supervisory Severely Adverse scenario?

**A:** A firm may choose to calibrate the severity of its BHC stress scenario to the current cycle's supervisory severely adverse scenario, but as noted in response to FAQ GEN0194, it is also acceptable for a firm to use the Federal Reserve's severely adverse scenario from a prior year's stress test cycle as a benchmark to assess the severity of the BHC stress scenario.

**(FRB Response: June 5, 2018)**

**Q (GEN0194):** What is Federal Reserve's expectation regarding the severity of a firm's own stress test?

**A:** Under the Board's capital plan rule, a firm is required to address, as part of its capital plan, the impact of at least one BHC stress scenario. See 12 CFR 225.8(e)(2)(i)(A). As provided in appendix G of SR letter 15-18, the BHC stress scenario should be at least as severe in the aggregate as the Federal Reserve's severely adverse supervisory scenario, measured in terms of the effect of the BHC stress scenario on net income and other elements that affect capital. It is acceptable for firms to use the Federal Reserve's severely adverse scenario from a prior year's stress test cycle as a benchmark to assess the severity of the BHC stress scenario.

**(FRB Response: April 6, 2018)**

**Q (GEN0193):** SR 15-18 guidance indicates that “scenario analysis should be a core component of the firm's operational loss projection approaches”, given the acknowledgment that “certain operational risks, particularly those most likely to give rise to large losses, often may not have measurable relationships to the overall scenario conditions” (p.41, Appendix I). A firm may develop scenario analysis approaches to stress the specific operational risk exposures related to its business, which could be considered idiosyncratic risks. As specified by the response to a recent FAQ (GEN0187), firms should not include idiosyncratic risk events in company-run stress tests under supervisory scenarios. Can the FRB please confirm that operational risk scenario analysis approaches are appropriate for use in company-run stress tests under supervisory scenarios?

**A:** The supervisory scenarios are used to assess the strength and resilience of a firm's capital in baseline and stressed economic and financial environments. Consistency and comparability are key features of annual supervisory stress tests and annual-company-run stress tests conducted under the supervisory scenarios. Accordingly, as noted in the response to GEN0187, firms should not include idiosyncratic risk events in the company-run stress tests conducted under the supervisory scenarios. Idiosyncratic risk events in the context of the supervisory scenarios include large-scale and remote operational events such as natural disasters or cyber-attacks that only impact a single firm. The Federal Reserve continues to expect firms to estimate operational losses in the company-run supervisory scenarios that may arise from the ordinary course of business operations, such as internal and external fraud and routine litigation. A firm may include idiosyncratic risk events in its BHC stress scenario so long as the stress scenario is consistent with the capital plan rule (12 CFR § 225.8), as elaborated in SR Letter 15-18 and the CCAR 2018 Summary Instructions. **(FRB Response: March 29, 2018)**



**Q (GEN0187):** As part of its BHC scenario design, firms may supplement their 9Q macroeconomic-driven forecasts with idiosyncratic scenario add-on components that are specific to the firm and which cannot be well modeled based on macroeconomic forecasts. These may include certain operational risk scenario events that are designed to be forward-looking, hypothetical events that target firm-specific vulnerabilities. Please clarify whether the impact from the operational risk scenario events that the firm itself designs and applies to its BHC scenarios should also be considered in the Supervisory Baseline, Adverse and Severely Adverse scenarios given that the Federal Reserve has not previously provided such guidance nor explicitly included operational risk-related scenario components in prior CCAR instructions.

**A:** Firms should not include idiosyncratic risk events in company-run stress tests under supervisory scenarios. **(FRB Response: February 21, 2018)**

