

Comprehensive Capital and Analysis Review 2020 Resubmission Questions and Answers

November 2020

Board of Governors of the Federal Reserve System

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Comprehensive Capital and Analysis Review (CCAR) Resubmission Q&As

General

Q: Does the SCB final rule's removal of prior approval requirements include all forms of capital distributions, including a one-time or quarterly increase to common dividends?

A: A firm is no longer required to request prior approval to make distributions, including a one-time or quarterly increase to common dividends, in excess of those included in its capital plan, provided that the distribution is consistent with the distribution limitations included in the capital rule. **(FRB Response: October 29, 2020)**

Q: When does the FRB plan to conclude the resubmission process and related supervisory work, and would the FRB be able to provide guidance to firms about the expected time frame?

A: The Board will release firm-specific results from banks' performance under both scenarios by the end of this year. The Board expects to complete the review of the resubmitted capital plans in early 2021 and will advise firms when it has done so. **(FRB Response: October 29, 2020)**

Q: What is the as-of date for the 2020 capital plan resubmission?

A: Firms should resubmit the 2020 capital plan and associated FR Y-14A data using an as-of date of June 30, 2020. Additional information about the resubmission process will be released at a later date. **(FRB Response: July 10, 2020)**

Q: Will firms with significant trading activity be required to include a trading and counterparty component (market shock) in the 2020 capital plan resubmission?

A: Yes. The Federal Reserve will require firms with significant trading activity to include a trading and counterparty component with respect to their resubmitted capital plans with an anticipated as-of date of June 30, 2020. More information regarding the trading and counterparty component will be forthcoming. **(FRB Response: July 10, 2020)**

Capital Plan Submissions and Expectations for Firm's Scenarios and Models

Q: An FAQ issued by the banking agencies in May indicates that banks may apply the multiplication factor that applied as of December 31, 2019, to determine value-at-risk (VaR)-based capital requirements for Market Risk RWA and stressed VaR-based capital requirement for Market Risk RWA through September 30, 2020, as a result of the impact of COVID-19 on financial markets. Should firms apply this treatment through the capital plan resubmission planning horizon, or will the treatment be extended by the banking agencies?

A: To determine value-at-risk (VaR)-based capital requirements for Market Risk RWA and stressed VaR-based capital requirement for Market Risk RWA for the capital plan resubmission, exceptions from March 6, 2020 to March 27, 2020 may be excluded in the firm's

calculation of its multiplier until they would naturally roll out of the backtesting window on March 27, 2021. **(FRB Response: October 29, 2020)**

Q: Which attestation are firms required to submit along with their FR Y-14A and stressed FR Y-14Q, Schedule L (Counterparty) data associated with the capital plan resubmission?

A: For the resubmission of a firm's FR Y-14A and the stressed FR Y-14Q, Schedule L (Counterparty) data as of June 30, 2020, firms may provide either the FR Y-14Q/Mand FR Y-14A semi-annual attestation or the FR Y-14A/Q/Manual attestation. Firms are reminded that the form of attestation does not change the Federal Reserve's capital planning expectations including, for firms subject to SR Letter 15-18 (Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms), the capital planning expectations regarding governance and internal controls. **(FRB Response: October 1, 2020)**

Q: Are firms required to submit the Y-14A Schedule A.1.d – Capital – DFAST sub-schedule as part of the 2020 capital plan resubmission?

A: Firms are not required to submit the Y-14A Schedule A.1.d – Capital – DFAST sub-schedule as part of the 2020 capital plan resubmission. Firms are required to submit the Y-14A Schedule A.1.d – Capital – CCAR sub-schedule as part of the 2020 capital plan resubmission. **(FRB Response: October 1, 2020)**

Q: Are firms that are subject to Category IV standards required to estimate in their resubmitted capital plans projected revenues, losses, reserves, and pro forma capital levels, including regulatory capital ratios, under the supervisory scenarios (baseline, severely adverse, and alternative severe) issued by the Federal Reserve on September 17, 2020?

A: Firms that are subject to Category IV standards are not required to estimate in their resubmitted capital plans projected revenues, losses, reserves, and pro forma capital levels, including regulatory capital ratios, under the supervisory scenarios issued by the Federal Reserve on September 17, 2020. These firms are required to include estimates of these items under a BHC baseline scenario and at least one BHC stress scenario. 12 CFR 225.8(e)(4)(iv). For purposes of developing these scenarios, firms may either develop complete internal scenarios, or adjust the Federal Reserve's supervisory scenarios to address specific vulnerabilities of the firm's risk profile and operations, as needed, to appropriately capture the firm's risks. **(FRB Response: October 1, 2020)**

Q: Will the FRB require full supporting documentation similar to annual capital plan submissions, or will firms only be required to provide material updates from their April submissions?

A: We will not require full supporting documentation. The Federal Reserve will be sending firms a first day letter no later than September 30, 2020, that sets forth the elements in scope for the resubmission, the materials firms should submit as a result, and the timeline for doing so. **(FRB Response: July 24, 2020)**

Q: Are we expected to receive a new first day letter and updated CCAR instructions outlining details on the requirements to complete and resubmit the 2020 capital plan within the 45 day time period?

A: The Federal Reserve will be sending firms a first day letter no later than September 30, 2020, that sets forth the elements in scope for the resubmission, the materials firms should

submit as a result, and the timeline for doing so. Firms can rely on the first day letter and the existing CCAR instructions. **(FRB Response: July 24, 2020)**

Q: Will the FRB be conducting additional Horizontal Capital Review (HCR) exams post resubmission of the 2020 capital plan?

A: At this point in time, we do not have any information to communicate regarding future HCR work. As in years past, firms will be notified in advance of participation in any supervisory events. **(FRB Response: July 24, 2020)**

Q: Are an internal baseline and stress scenario required to be included with the submission?

A: Yes. As noted in the June 25, 2020, resubmission notification letter, as a part of its capital plan, a firm is required to develop at least one BHC baseline scenario and a firm-specific BHC stress scenario that focuses on the specific vulnerabilities of the firm's risk profile and operations. **(FRB Response: July 24, 2020)**

Q: The FRB has taken various actions in response to COVID-19, including a supplementary leverage rule interim final rule and market risk multiplier relief. Should firms reflect COVID-19-related regulatory responses in projection period estimates if, under current rules or guidance, the regulatory actions are expected to apply for relevant periods?

A: Yes, a firm must consider and reflect in its analysis the regulatory capital rules in effect for each quarter of the planning horizon (other than the advanced approaches), including the minimum regulatory capital ratios and the applicable transition provisions. **(FRB Response: July 24, 2020)**

Q: Given the rate of change in macroeconomic indicators experienced in Q1 and the situation of still being within the stress cycle, we assume the Federal Reserve and other firms are experiencing challenges with the output of their models. Will the Federal Reserve provide guidance on its expectations regarding projection methodologies used for the new supervisory scenarios (e.g., model performance, recalibration/redevelopment, overlays) given these shared challenges?

A: Firms should continue to refer to SR Letter 11-7 for supervisory guidance on model risk management. **(FRB Response: July 24, 2020)**

Q: Is there an expectation to re-validate models?

A: Firms are not required to re-validate their entire suite of capital planning models prior to developing and resubmitting their capital plans. Instead, firms should continue to undertake an independent validation of models, pursuant to relevant supervisory guidance on model risk management. **(FRB Response: July 24, 2020)**

Q: Are there 2nd and 3rd line of defense validation expectations with respect to opining on a new capital plan?

A: Firms' internal audit functions should continue to review firms' updated capital plans pursuant to relevant supervisory guidance on this subject. **(FRB Response: July 24, 2020)**

Q: What is the expectation for firms to provide updates or accelerate remediation efforts, model monitoring, or model redevelopment as part of the resubmission?

A: The timelines for the remediation of capital planning-related supervisory findings are not changed by the resubmission, and firms should continue their remediation efforts pursuant to those already established timelines. Firms' model monitoring and redevelopment efforts should

continue to be undertaken pursuant to relevant supervisory guidance on model risk management. **(FRB Response: July 24, 2020)**

Q: Can firms modify capital action assumptions under the resubmission?

A: Yes, firms are free to update their capital action assumptions so long as the capital actions are consistent with existing regulations and Board actions. For example, updated capital actions should be consistent with the limitation outlined in the letters sent to the firms regarding restrictions on their third quarter capital actions or the limitation outlined in the capital plan rule that a firm plan’s capital actions are consistent with the capital conservation buffer restrictions and the firm’s projections in their BHC baseline scenario.

(FRB Response: July 24, 2020)

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Supervisory Scenarios

Q: When will the Federal Reserve provide the scenarios?

A: The Federal Reserve will provide the scenarios after Labor Day but no later than September 30, 2020. **(FRB Response: July 24, 2020)**

Q: How many scenarios will the Federal Reserve provide?

A: The Federal Reserve will provide two or three new scenarios, including a supervisory baseline scenario. **(FRB Response: July 24, 2020)**

Q: For firms subject to company-run stress testing, does the firm’s stress scenario need to be at least as severe as the Federal Reserve’s supervisory scenario?

A: The firm’s BHC stress scenario should be designed by the firm to stress the specific vulnerabilities of the firm’s risk profile and operations, including those related to the firm’s capital adequacy and financial condition. The firm should continue to apply existing guidance in SR 15-18 and SR 15-19, which specify that the firm’s BHC stress scenario should be at least as severe as the Federal Reserve’s severely adverse supervisory scenario, in accordance with the Policy Statement on the Scenario Design Framework for Stress Testing.

(FRB Response: July 24, 2020)

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Supervisory COVID Event Analysis

Q: How will the Federal Reserve treat Paycheck Protection Program (PPP) loans in the stress test?

A: The Federal Reserve will reflect the federal loan guarantee for PPP loans in its stress test. The Federal Reserve’s stress test will assume that PPP loans earn interest income but incur no credit losses. In addition, PPP loans will be assigned a risk weight of zero, consistent with the regulatory capital rule. **(FRB Response: November 6, 2020)**

Q: In its [September 17 press release](#), the FRB stated: “The Board will release firm-specific results from banks’ performance under both scenarios by the end of this year.” Would the FRB be able to provide more information and clarify what firm-specific results will be disclosed?

A: The Board intends to provide the results of the second round of bank stress tests in a format similar to past Dodd-Frank Act Stress Test results. **(FRB Response: October 29, 2020)**

Q: The capital plan rule states that, in connection with a resubmitted capital plan: “the Board may recalculate the bank holding company’s stress capital buffer requirement.” 12 C.F.R. § 225.8(f)(3). This language indicates that the FRB may, but is not required to, recalculate firms’ SCBs in connection with resubmitted capital plans. Does the FRB plan to recalculate some or all firms’ SCBs in response to resubmitted capital plans and, if so, when will it provide notice of recalculated SCBs and for what period of time will the recalculated SCBs be in effect?

A: The Board has not made a decision to recalculate stress capital buffer requirements. The Board would follow the procedures under 12 CFR 225.8(f)(3) to determine if a firm’s stress capital buffer requirement should be recalculated once the firm resubmits its capital plan later this year. The capital framework emphasizes the value of not increasing capital requirements under stress and thus exacerbating a downturn. In particular, the capital framework is based on the principle that during normal periods firms build capital buffers that they can draw on during times of stress. **(FRB Response: July 24, 2020)**

Q: Does the FRB intend to publish a full disclosure document of stress test results in connection with resubmitted capital plans similar to the annual stress test disclosure document it publishes in June each year?

A: The Federal Reserve will provide information about any public disclosure regarding the resubmitted capital plans at a later date. **(FRB Response: July 24, 2020)**

