

**FEDERAL RESERVE SYSTEM****12 CFR Parts 225 and 252****[Docket No. R-1548]****RIN 7100-AE59****Amendments to the Capital Plan and Stress Test Rules; Regulations Y and YY****AGENCY:** Board of Governors of the Federal Reserve System (Board).**ACTION:** Final rule.

**SUMMARY:** The Board is adopting a final rule that revises the capital plan and stress test rules for bank holding companies with \$50 billion or more in total consolidated assets and U.S. intermediate holding companies (IHCs) of foreign banking organizations. Under the final rule, large and noncomplex firms (those with total consolidated assets of at least \$50 billion but less than \$250 billion, nonbank assets of less than \$75 billion, and that are not U.S. global-systemically important banks) are no longer subject to the provisions of the Board's capital plan rule whereby the Board may object to a capital plan on the basis of qualitative deficiencies in the firm's capital planning process. Accordingly, these firms will no longer be subject to the qualitative component of the annual Comprehensive Capital Analysis and Review (CCAR). The final rule also modifies certain regulatory reports to collect additional information on nonbank assets and to reduce reporting burdens for large and noncomplex firms. For all bank holding companies subject to the capital plan rule, the final rule simplifies the initial applicability provisions of both the capital plan and the stress test rules, reduces the amount of additional capital distributions that a bank holding company may make during a capital plan cycle without seeking the Board's prior approval, and extends the range of potential as-of dates the Board may use for the trading and counterparty scenario component used in the stress test rules.

The final rule does not apply to bank holding companies with total consolidated assets of less than \$50 billion or to any state member bank or savings and loan holding company.

**DATES:** *Effective Date:* March 6, 2017.

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**SUPPLEMENTARY INFORMATION:****I. Background***A. Overview of Proposed Changes to the Capital Plan and Stress Test Rules and Comments Received*

Capital planning and stress testing are two key components of the Federal Reserve's supervisory framework for large financial companies.<sup>1</sup> Through these programs, the Federal Reserve annually assesses whether bank holding companies with \$50 billion or more in total consolidated assets have effective capital planning processes and sufficient capital to absorb losses during stressful conditions, while meeting obligations to creditors and counterparties and continuing to serve as credit intermediaries.

On September 26, 2016, the Board of Governors of the Federal Reserve System (Board) invited comment on a

<sup>1</sup> In addition to bank holding companies with total consolidated assets of \$50 billion or more, the changes in this final rule also apply to any nonbank financial company supervised by the Board that becomes subject to the capital planning and stress test requirements pursuant to a rule or order of the Board and to U.S. intermediate holding companies of foreign banking organizations in accordance with the transition provisions under the capital plan rule and subpart O of the Board's Regulation YY (12 CFR part 252). Currently, no nonbank financial companies supervised by the Board are subject to the capital planning or stress test requirements. A U.S. intermediate holding company that was required to be established by July 1, 2016 and that was not previously subject to the Board's capital plan rule is required to submit its first capital plan in 2017 and will become subject to the Board's stress test rules beginning in 2018. References to "bank holding companies" or "firms" in this preamble should be read to include all of these companies, unless otherwise specified.

proposal to reduce the burden of capital planning and stress testing requirements for certain firms with a lower risk profile, while continuing to hold the largest and most complex firms to the highest standards.<sup>2</sup> Under the proposal, a large and noncomplex firm (a bank holding company with total consolidated assets of at least \$50 billion but less than \$250 billion, on-balance sheet foreign exposure of less than \$10 billion, and nonbank assets of less than \$75 billion) would no longer have been subject to the provisions of the Board's capital plan rule whereby the Board may object to a firm's capital plan based on unresolved supervisory issues or concerns with the assumptions, analysis, and methodologies in the firm's capital plan.<sup>3</sup> In connection with this change, large and noncomplex firms would have remained subject to a quantitative, but not a qualitative, assessment of their capital plans under the capital plan rule. All other bank holding companies that would have been subject to the capital plan rule (a LISCC firm, if the bank holding company is subject to the Large Institution Supervision Coordinating Committee (LISCC) supervisory framework,<sup>4</sup> or large and complex firm, if the bank holding company otherwise had total consolidated assets of \$250 billion or more, on-balance sheet foreign exposure of \$10 billion or more, or nonbank assets of \$75 billion or more) would have remained subject to objection to their capital plan based on qualitative deficiencies under the rule.

Additionally, the proposal would have reduced the de minimis exception amount for capital distributions under the capital plan rule. Generally, the capital plan rule provides that a bank holding company must obtain the Federal Reserve's prior approval before making capital distributions above the dollar amount described in its capital plan.<sup>5</sup> However, a bank holding company that is well capitalized, as defined in 12 CFR 225.2(r), may make capital distributions above such dollar amount without seeking the Board's prior approval if other requirements are met. These include the requirement that the aggregate additional total

<sup>2</sup> 81 FR 67239 (September 30, 2016).

<sup>3</sup> The proposal also proposed amending the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) to include a new line item for purposes of identifying large and noncomplex firms.

<sup>4</sup> Based on the current population of bank holding companies, all LISCC firms have total consolidated assets of \$250 billion or more, on-balance sheet foreign exposure of \$10 billion or more, or nonbank assets of \$75 billion or more.

<sup>5</sup> See 12 CFR 225.8(g)(1).

distribution amount for the one-year period following the Federal Reserve's action on the bank holding company's capital plan not exceed 1.00 percent of the bank holding company's tier 1 capital (the de minimis exception).<sup>6</sup>

The proposal would have amended the de minimis exception in two ways for all bank holding companies subject to the capital plan rule. First, the proposal would have lowered the de minimis amount from 1.00 percent to 0.25 percent of a bank holding company's tier 1 capital, beginning April 1, 2017. Second, the proposal would have established a one-quarter "blackout period" while the Federal Reserve is conducting CCAR (the second quarter of a calendar year), during which bank holding companies would not be able to submit a notice to use the de minimis exception or to request prior approval from the Federal Reserve to make additional capital distributions.

The proposal also would have modified the range of starting dates for the trading and counterparty component of the stress test. Under the Board's stress test rules, the Board may require a bank holding company with significant trading activity to include a trading and counterparty component (global market shock) in its adverse and severely adverse scenarios for its company-run stress tests.<sup>7</sup> Currently, the Board must select a date between January 1 and March 1 of the calendar year of the current stress test cycle for the "as-of" date for the data used as part of the global market shock components of the bank holding company's adverse and severely adverse scenarios.<sup>8</sup> The proposal would have extended the range of dates from which the Board may select the as-of date for the global market shock to October 1 of the calendar year preceding the year of the stress test cycle to March 1 of the calendar year of the stress test cycle.

Finally, the proposal would have modified associated regulatory reporting requirements for large and noncomplex firms to collect less detailed information on stress test results and raise the materiality threshold for reporting on specific portfolios. The proposal also would have simplified the timing of the initial applicability of the capital plan and stress test rules for all bank holding companies with \$50 billion or more in total consolidated assets.

The Board received twelve comments in response to the proposal from the public, banking organizations, and trade associations. Commenters generally

expressed support for the proposal, and provided alternative views on certain aspects of the proposed rule, including the definition of a large and noncomplex firm and the proposed reduction of the de minimis exception amount for capital distributions not included in a firm's capital plan.

#### *B. Description of Capital Plan and Stress Test Requirements*

Under Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Board is required to establish enhanced prudential standards for bank holding companies with total consolidated assets of \$50 billion or more.<sup>9</sup> As part of this requirement, the Board must conduct annual supervisory stress tests with respect to these bank holding companies and issue regulations requiring these bank holding companies to conduct semi-annual company-run stress tests.<sup>10</sup> The Board adopted final rules to implement these requirements on October 12, 2012.<sup>11</sup>

The Dodd-Frank Act also requires the enhanced prudential standards established by the Board to increase in stringency based on several factors, including the size and risk characteristics of the bank holding companies subject to the requirements.<sup>12</sup> In prescribing more stringent prudential standards, including stress test requirements, the Board may differentiate among bank holding companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board deems appropriate.<sup>13</sup>

#### *C. Implementation of Capital Plan and Stress Test Requirements*

Consistent with the Dodd-Frank Act mandate, the Board conducts an annual assessment of the capital planning and post-stress capital adequacy of bank holding companies with total consolidated assets of \$50 billion or

more.<sup>14</sup> The Board's capital planning and stress testing framework for these firms consists of two related programs: CCAR, which is conducted pursuant to the Board's capital plan rule,<sup>15</sup> and the Dodd-Frank Act stress tests, which are conducted pursuant to the Board's stress test rules.<sup>16</sup>

In CCAR, the Board assesses the internal capital planning processes of bank holding companies and these companies' ability to maintain sufficient capital to continue their operations under expected and stressful conditions. Pursuant to the capital plan rule, each bank holding company must submit an annual capital plan to the Board that describes its capital planning processes and capital adequacy assessment. In the current CCAR process, the Federal Reserve conducts a qualitative assessment of the strength of each bank holding company's internal capital planning process and a quantitative assessment of each bank holding company's capital adequacy. In the qualitative assessment, the Federal Reserve evaluates the extent to which the analysis underlying each bank holding company's capital plan comprehensively captures and addresses potential risks stemming from company-wide activities. In addition, the Federal Reserve evaluates the reasonableness of a bank holding company's capital plan, the assumptions and analysis underlying the plan, and the robustness of the bank holding company's capital planning process. Under the capital plan rule, the Board may object to a bank holding company's capital plan if the Board determines that (1) the bank holding company has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process; (2) the assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies for reviewing its capital adequacy process, are not reasonable or appropriate;<sup>17</sup> or (3) the bank holding company's capital planning process or proposed capital distributions otherwise

<sup>9</sup> 12 U.S.C. 5365.

<sup>10</sup> 12 U.S.C. 5365(i).

<sup>11</sup> 77 FR 62380 (October 12, 2012). See 12 CFR part 252, subparts E and F. On October 12, 2012, as required by section 165(i) of the Dodd-Frank Act, the Federal Reserve also adopted a final rule to impose company-run stress testing requirements for state member banks and savings and loan holding companies with assets of more than \$10 billion and bank holding companies with assets of more than \$10 billion but less than \$50 billion, which is codified at subpart B of 12 CFR part 252. The Board is not adjusting the requirements in subpart B of 12 CFR part 252 at this time.

<sup>12</sup> See 12 U.S.C. 5365(b).

<sup>13</sup> 12 U.S.C. 5363(a)(2)(A).

<sup>14</sup> In addition, U.S. intermediate holding company (IHC) subsidiaries of foreign banking organizations became subject to the Board's capital plan rule beginning on January 1, 2017.

<sup>15</sup> 12 CFR 225.8.

<sup>16</sup> Subparts E and F of the Board's Regulation YY (12 CFR part 252, subparts E and F).

<sup>17</sup> As discussed in section II.H of this preamble below, the proposal would revise this criterion to permit objection where the Board determines that the assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies and practices that support its capital planning process, are not reasonable or appropriate.

<sup>6</sup> See 12 CFR 225.8(g)(2).

<sup>7</sup> See 12 CFR 252.14(b)(2).

<sup>8</sup> *Id.*

constitute an unsafe or unsound practice, or would violate any law, regulation, Board order, directive, or condition imposed by, or written agreement with, the Board or the appropriate Federal Reserve Bank (together, qualitative objection criteria).<sup>18</sup> The Board may also object to a bank holding company's capital plan if the bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon (that is, based on a quantitative assessment).<sup>19</sup> In past CCAR exercises, the Board has publicly announced its decision to object to a bank holding company's capital plan, along with the basis for the decision.<sup>20</sup>

If the Federal Reserve objects to a bank holding company's capital plan, the bank holding company may not make any capital distributions unless the Federal Reserve indicates in writing that it does not object to such distributions.<sup>21</sup>

Pursuant to the Board's stress test rules, the Board conducts supervisory stress tests of bank holding companies with total consolidated assets of \$50 billion or more, and these bank holding companies are required to conduct annual and mid-cycle company-run stress tests.

## II. Revisions to the Capital Plan and Stress Test Rules

### A. Elimination of CCAR Qualitative Assessment and Objection for Large and Noncomplex Firms

The Board has different expectations for sound capital planning and capital adequacy depending on the size, scope of operations, activity, and systemic risk profile of a firm.<sup>22</sup> Consistent with those different expectations, the proposal would have differentiated the supervisory process for evaluating firms' capital planning practices. Under the proposal, large and noncomplex firms would no longer have been subject to the provisions of the Board's capital plan rule whereby the Board may object

to a capital plan on the basis of deficiencies in the firm's capital planning process or unresolved supervisory issues; that is, large and noncomplex firms would no longer have been subject to the qualitative component of the annual CCAR assessment.

Under the proposal, the Federal Reserve would have conducted its supervisory assessment of a large and noncomplex firm's risk-management and capital planning practices through the regular supervisory process and targeted, horizontal assessments of particular aspects of capital planning, rather than through the annual CCAR assessment. Further, the preamble noted that the Board would not object to the capital plans of large and noncomplex firms due to qualitative deficiencies in their capital planning process, but rather would incorporate an assessment of these practices into its regular, ongoing supervisory activities. As compared to the annual CCAR assessment, the review process for large and noncomplex firms would have been more limited in scope, include targeted horizontal evaluations of specific areas of the capital planning process, and focus on the standards set forth in the capital plan rule and Supervision and Regulation (SR) Letter 15–19.

Under the proposal, the Board would have continued to perform an annual quantitative assessment of capital plans of the large and noncomplex firms and publicly announce a decision to object or not object to a firm's capital plan on this basis. Consistent with the current capital plan rule, nothing in the proposal would have limited the authority of the Federal Reserve to issue a capital directive, such as a directive to reduce capital distributions, or take any other supervisory enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law, such as an unsafe and unsound capital planning process.<sup>23</sup>

Commenters strongly supported removing large and noncomplex firms from the qualitative component of the annual CCAR assessment and eliminating the qualitative objection for these firms. Commenters expressed the view that the qualitative component of the CCAR assessment was unduly burdensome for large and noncomplex firms because it required the development of large amounts of documentation and sophisticated stress test models to the same degree as the largest firms. The commenters agreed that further tailoring of regulatory requirements for large and noncomplex

firms would incentivize such firms to invest in capital planning processes that are appropriate for the risks of those firms.

### 1. Supervisory Review of Capital Plans

A commenter recommended that the Federal Reserve clarify how it plans to implement the supervisory review of the capital plans for large and noncomplex firms. Specifically, the commenter sought clarification on whether the Federal Reserve intended to use the "regular" supervisory process and whether the targeted horizontal review would be similar to current horizontal reviews undertaken by the Federal Reserve (such as the shared national credit review). Commenters sought additional information about whether the Federal Reserve would provide advance notice of examination focus in a first day letter, use standard procedures for communicating with management and communicating matters requiring attention, and use standard time frames for addressing any supervisory findings. Commenters also requested that the Board clarify that supervisors will apply the expectations set forth in SR Letter 15–19 for large and noncomplex firms in the capital plan review.

The Federal Reserve intends to conduct the supervisory review of capital plans of large and noncomplex firms in a manner similar to existing supervisory programs, which typically include a distribution of a first day letter in advance of the start of the review, standard communication during the exam, lead time to meet requests for additional information, and sufficient time frames for addressing the findings. With respect to the capital plan review, the Federal Reserve intends to provide large and noncomplex firms with several months' advance notice of the areas of focus of the annual capital plan review. For an individual firm, the review may also cover areas where the firm's practices are changing and issues raised in previous firm-specific supervisory communication.

In addition, as requested by commenters, the Board will ensure that communication and standards are coordinated between any teams conducting targeted horizontal reviews and the dedicated supervisory teams, who will conduct a holistic review of the capital plan at their respective supervised institutions each year. The Board confirms that it will apply capital planning expectations based on the size and complexity of a firm. As such, large and noncomplex firms will continue to be subject to the standards in SR Letter 15–19.

<sup>18</sup> See 12 CFR 225.8(f)(2)(ii)(A), (B), and (D).

<sup>19</sup> See 12 CFR 225.8(f)(2)(ii)(C).

<sup>20</sup> See 12 CFR 225.8(f)(v).

<sup>21</sup> See 12 CFR 225.8(f)(2)(iv).

<sup>22</sup> See SR Letter 15–18, "Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISC Firms and Large and Complex Firms." (April 4, 2011), available at: <https://www.federalreserve.gov/bankinforeg/srletters/sr1518.htm>.> See SR Letter 15–19, "Federal Reserve Supervisory Assessment of Capital Planning and Positions for Large and Noncomplex Firms." (December 18, 2015), available at: <https://www.federalreserve.gov/bankinforeg/srletters/sr1519.htm>.

<sup>23</sup> See 12 CFR 225.8(b)(4).

The proposal indicated that the supervisory review of capital plans would likely occur in the third quarter of each calendar year. Commenters requested that the review take place during the second quarter, concurrent with CCAR, to avoid coinciding with the DFAST mid-cycle process, which occurs in the third quarter. While moving the supervisory review to the second quarter may avoid the resource and time constraints resulting from the DFAST mid-cycle process occurring the same quarter as the supervisory capital plan review, it would also limit the amount of time that a firm would have to prepare supporting documentation. The Federal Reserve intends to provide the first day letter to firms during the first quarter and firms will have additional time to provide supporting documentation after they submit their capital plans. In addition, the timing of the supervisory review of large and noncomplex firms will be separate from the comprehensive CCAR qualitative assessment in order to clarify the differences in the review to the public. For these reasons, the supervisory review of the capital plans of large and noncomplex firms will generally begin in the third quarter of the year.

## 2. Required Elements of Capital Plan Submission

The proposal would have maintained the minimum elements of a capital plan outlined in the capital plan rule, but would have reduced the supporting documentation a large and noncomplex firm would have been required to be submit with its capital plan. Specifically, the proposal would have revised the instructions to Appendix A of the FR Y-14A to remove the requirement that a large and noncomplex firm include in its capital plan submission certain documentation regarding its models, including any model inventory mapping document, methodology documentation, model technical documents, and model validation documentation. The preamble to the proposal noted that large and noncomplex firms would still be required to produce these materials upon request by the Federal Reserve based on the focus of the supervisory review of a large and noncomplex firm's capital plan.

One commenter requested that the Board revise the minimum elements of a capital plan to require firms to submit only the summary portion of their capital plan and not submit the other components of the capital plan (capital policies, planned capital actions, capital planning process, etc.) In addition, commenters questioned whether the

proposed revisions to the supporting documentation requirements would meaningfully reduce burden for large and noncomplex firms, as firms would continue to have to update and be prepared to produce the documentation upon request. Commenters recommended that the Board specify the documents it expects firms to maintain, identify the frequency with which documentation needs to be refreshed, and clarify the timeframe within which firms would be required to produce model-related documentation.

The final rule maintains the minimum elements of a capital plan, as these elements, such as a firm's capital policy and description of the firm's capital planning process, are important inputs into the supervisory assessment of the firm's capital plan regardless of whether the assessment occurs through CCAR or through the regular supervisory process. Furthermore, these elements enable the firm's board of directors to understand and approve of the firm's capital adequacy, capital planning processes, and capital-related decisions. The Board is also adopting the proposed revisions to the supporting documentation requirements, and intends to implement these revisions in a manner that will meaningfully reduce burdens for large and noncomplex firms. Large and noncomplex firms will no longer be expected to include this supporting documentation in the capital plans that are vetted by senior management and approved by the board of directors of the firm. In addition, the proposed process will inform firms of the proposed areas of focus and provide them lead time to provide requested documents, which will enable them to prioritize improvements in the Federal Reserve's areas of focus and reduce resource requirements for the firm's capital planning process.

## 3. Expectation for Model Risk Management for Large and Noncomplex Firms

Commenters requested that the Board clarify its expectations for model documentation for large and noncomplex firms, and confirm that the model risk management guidance in SR Letter 11-7 is appropriate for large and noncomplex firms.<sup>24</sup>

Large and noncomplex firms are expected to maintain documentation regarding the loss, revenue, and expense estimation models used for stress scenario analysis, and update that

documentation to reflect revisions to the models.<sup>25</sup> As described in SR Letter 15-19, the expectations for models are reduced for large and noncomplex firms as compared to large and complex and LISCC firms, including with respect to the granularity of projections, variable selection process, controls around the use of vendor models, and measures for assessing model performance.<sup>26</sup> Commensurate with the reduced expectations for the use of models, expectations for model documentation are also lower for large and noncomplex firms, as compared to LISCC and large and complex firms.

Regarding commenters' questions on the application of SR Letter 11-7, the Board confirms that SR Letter 11-7 continues to apply to all firms, including large and noncomplex firms. SR Letter 15-19 was drafted to be consistent with the standards in SR Letter 11-7 and describes a particular application of SR Letter 11-7 for capital planning. As discussed in SR Letter 15-19, supervisory expectations for various aspects of capital planning processes, including model risk management, for large and noncomplex institutions differ from those for LISCC and large and complex firms. For example, while a large and noncomplex firm should independently validate or otherwise conduct effective challenge of estimation methods used in internal capital planning, it should prioritize those activities only for its material models. Other specific expectations around validation and effective challenge are also reduced relative to the expectations for LISCC and large and complex firms.<sup>27</sup> Further, the tailored evaluation of model risk management at large and noncomplex firms means that the Federal Reserve generally does not expect the same level of sophistication and intensity of model risk management at large and noncomplex firms compared to LISCC and large and complex firms.

## 4. Application of Market Shock and Large Counterparty Default Component

Commenters requested that the Board specify that large and noncomplex firms would not be subject to the global market shock and large counterparty default components of the supervisory stress test. Currently, only firms with over \$500 billion in total consolidated assets who are subject to the market risk rule are subject to the global market shock component, as such, no large and noncomplex firm could qualify for

<sup>24</sup> See SR Letter 11-7, "Guidance on Model Risk Management." (April 4, 2011), available at: <https://www.federalreserve.gov/bankinforeg/srletters/sr1107.htm>.

<sup>25</sup> See SR Letter 15-19.

<sup>26</sup> See SR Letter 15-19.

<sup>27</sup> See SR Letter 15-19.

inclusion in the global market shock component of the supervisory stress test.<sup>28</sup> In addition, the Board did not propose to apply the global market shock component or the large counterparty default component to any large and noncomplex firm. Under the Board's stress test rules, the Board provides notice and an opportunity for response to firms that are subject to the large counterparty default component of the stress test.

#### *B. Identifying Large and Noncomplex Firms*

Under the proposed rule, a bank holding company would have been considered large and noncomplex if, as of December 31 of the calendar year prior to the beginning of the capital plan cycle, the firm had average total consolidated assets of at least \$50 billion but less than \$250 billion,<sup>29</sup> total on-balance sheet foreign exposure of less than \$10 billion, and average total nonbank assets of less than \$75 billion. These firms would no longer have been subject to the provisions of the Board's capital plan rule whereby the Board may object to a capital plan on the basis of qualitative deficiencies in the firm's capital planning process.

Some commenters recommended that the Board replace the proposed thresholds with measures the commenters viewed as being more comprehensive and risk-sensitive, such as the systemic risk indicator approach used to identify global systemically important bank holding companies (GSIBs), and further recommended that the Board apply the qualitative component of the CCAR assessment solely to firms identified as GSIBs. One commenter also argued that only firms identified as GSIBs should be considered large and complex. Another commenter recommended that the Board use a more discretionary, risk-based assessment to identify individual firms for a designation as large and complex.

<sup>28</sup> Capital Assessments and Stress Testing information collection (FR Y-14A/Q/M; OMB No. 7100-0341), FR Y-14Q General Instructions. [https://www.federalreserve.gov/reportforms/forms/FR\\_Y-14Q20161231\\_i.pdf](https://www.federalreserve.gov/reportforms/forms/FR_Y-14Q20161231_i.pdf).

<sup>29</sup> The proposed rule would not have amended the existing methodology for determining average total consolidated assets under the capital plan rule. Under the capital plan rule, average total consolidated assets equals the amount of total assets reported on the bank holding company's Consolidated Financial Statements for Holding Companies (FR Y-9C), measured as an average over the preceding four quarters. If a bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, its total consolidated assets are measured as the average of its total consolidated assets, as reported on the FR Y-9C, for the most recent quarter or consecutive quarters, as applicable. See 12 CFR 225.8(b)(2).

Firms that are identified as large and complex by the dollar thresholds, but are not GSIBs, still face risks or could present systemic risks that warrant enhanced capital planning expectations and greater supervisory oversight through the qualitative component of the CCAR assessment. Though a firm that exceeds the thresholds in the final rule but that is not a GSIB does not typically present the same level of systemic risk as a GSIB, these firms still tend to be interconnected with the financial system such that a material distress suffered by the firm could create economic disruption or spread quickly to similarly situated firms. Moreover, the qualitative component of the CCAR assessment and more detailed reporting requirements support greater supervisory oversight of these firms. In particular, CCAR and the related reporting requirements help to ensure that these firms are effectively identifying and managing risks that may arise in connection with their greater size and complexity or nonbanking operations in order to mitigate the possibility that these firms may experience material distress.

The Board considered a range of factors, including size, complexity of operations, and interconnectedness with other financial institutions, when considering the applicability of the qualitative component of the CCAR assessment to large banking organizations, which allows the Board to assess the systemic risk and to promote the resiliency of these firms. Banking organizations with total consolidated assets in excess of \$250 billion generally have more substantial systemic risk profiles and larger market shares in many sectors of the financial industry and in geographic regions. In particular, the significant types and volume of client services provided by such firms make it more likely that in the event that the firm were to experience distress or failure other market participants could have difficulty in absorbing and replacing all of those services, which may lead to significant disruption. Banking organizations of this size within the current population of firms also have the capacity and often tend to engage in more complex transactions that expose them to a broader range of risks, such as those resulting from transactions with a wide variety of counterparties, exposure to complex products and asset classes, and large trading portfolios.

Commenters also provided specific views on the \$10 billion foreign exposure threshold, which included a suggestion that the Board instead use the criteria for identifying U.S. GSIBs to

define which firms are subject to the qualitative objection in the capital plan rule.

As a general matter, firms with substantial foreign exposure tend to face risks that arise from maintaining numerous or significant and complex cross-border relationships that require knowledge of and cooperation with multiple jurisdictions. Large cross-border exposures also create greater challenges in recovery and resolution, increasing the need for firms with such a profile to maintain capital and capital planning practices that limit their probability of default or do not pose heightened risk to a firm. However, foreign exposures may also arise from business activities that are not as complex. For example, a firm may offer a simple, non-complex product such as consumer credit in multiple jurisdictions or have foreign exposures as a natural extension of its U.S.-based business that do not make the firm more complex or risky. As a result, a metric aimed at accounting for complexity that is based solely on the size of a firm's foreign exposures, in this context, may be over-inclusive. Including the GSIB requirement mitigates the potential that the proposed foreign exposure test may include firms that are not complex, while ensuring that the qualitative component of the CCAR assessment continues to apply to the most systemically important U.S. banking organizations.

As explained above, the final rule retains the other two prongs of the definition as proposed. Accordingly, this modification has the effect of expanding the applicability of the proposed definition and thereby increasing the number of firms removed from the qualitative component of the CCAR Assessment. For the current population of bank holding companies that would have been identified as large and noncomplex under the proposal but for the size of their foreign exposure, the supervisory capital plan review for large and noncomplex firms should be sufficient. As noted, that process may include a firm-specific review of particular capital planning practices, including management of risks arising specifically from foreign exposure. Under the final rule, the Board will retain the authority to take supervisory actions related to capital planning against large and noncomplex firms, including an action to address unsafe and unsound practices or conditions or violations of law, such as an unsafe and unsound capital planning process. In addition, the Board expects such firms to meet the capital planning standards

set forth in the capital plan rule and SR Letter 15–19.

Several commenters questioned the proposed \$75 billion nonbank asset threshold for determining whether a firm is considered large and noncomplex. One commenter argued that a higher nonbank asset threshold, specifically, one set at \$100 billion, would be more appropriate and consistent with a provision in the Board's resolution plan rule (Regulation QQ) that permits a firm to submit a tailored resolution plan.<sup>30</sup> Another commenter asserted that empirical data did not support the inclusion of a nonbank asset threshold as an appropriate indicator of a firm's systemic risk and that the total consolidated asset and foreign exposure thresholds adequately reflect a bank holding company's size, complexity, and riskiness to the financial system.

Commenters' suggestion that the Board use a \$100 billion nonbank asset threshold in order to align with the threshold under Regulation QQ that permits a firm to submit a tailored resolution plan misstates the requirement and would result in a more stringent measure than the \$75 billion nonbank asset threshold set forth in the proposal. Regulation QQ uses a two-part threshold based on nonbank assets to determine whether a firm is permitted to submit a tailored resolution plan. Specifically, this threshold permits a firm to submit a tailored resolution plan if the firm has less than \$100 billion in nonbank assets and insured depository institution assets constitute at least 85 percent of the firm's assets.<sup>31</sup> Since a firm would also need to have less than \$250 billion in total assets to be considered large and noncomplex under the final rule based on the total assets threshold, using the Regulation QQ measure would in effect result in a nonbank assets threshold of no greater than \$37.5 billion. Accordingly, adoption of the same nonbank assets threshold used in Regulation QQ would represent a more stringent measure than the \$75 billion nonbank asset threshold set forth in the proposal.

Commenters asserted that a threshold based on nonbank assets would not be an appropriate measure for determining whether a firm should be subject to heightened requirements under the capital plan rule, or that such a threshold should be set at a level higher than \$75 billion. The Board, in developing the nonbank asset threshold, reviewed the risk profile of the current population of bank holding companies

and the effects on U.S. financial stability associated with the distress or failure of large financial firms. A nonbank asset threshold of \$75 billion would separate out bank holding companies that are significantly engaged in activities outside the business of banking. Such activities may involve a broader range of risks and result in more interconnections with other financial institutions than those associated with purely banking activities, requiring sophisticated risk management and heightened capital planning standards. For example, bank holding companies with significant nonbank assets are generally engaged in financial intermediation of a different nature and magnitude (such as complex derivatives and capital markets activities like underwriting) than those typically conducted through an insured depository institution. Further, nonbank entities tend to be more vulnerable to funding runs, given that they generally rely to a greater degree on less stable forms of funding than insured depository institutions. In addition, the Board notes that, historically, the distress or failure of firms with significant nonbank assets has coincided with or increased the effects of significant disruptions to the stability of the U.S. financial system.<sup>32</sup> The correlation between the distress of financial firms with significant nonbank assets and the disruption of the U.S. financial system, coupled with the additional complexities found in bank holding companies with large nonbank activities, supports the use of a nonbank asset threshold. A threshold of \$75 billion represents a conservative level relative to historical experience and would help to ensure that heightened standards are applied to firms that engage in complex activities and have significant potential for disrupting the financial system. In addition, a threshold higher than \$75 billion would exclude some firms with risk profiles that are significantly concentrated in riskier activities, particularly IHCs that engage in significant capital market activities. In particular, a higher threshold would exclude companies that engage in equities trading, prime brokerage, and investment banking activities, and therefore have risk profiles that are more similar to those of the most complex U.S. financial firms

<sup>32</sup> Examples include the near-failures of Wachovia (a bank holding company with \$162 billion in nonbank assets as of September 30, 2008) and of Long Term Capital Management (a hedge fund with \$125 billion in assets as of August 31, 1998).

than to the risk profiles of the smaller, less complex BHCs.

One commenter requested that the Board clarify whether a firm considered to be part of the LISCC portfolio that reduces its size or complexity to meet the criteria for a large and noncomplex firm would be subject to the qualitative component of the CCAR assessment. The commenter also asked the Board to clarify whether a firm that qualified as a large and complex firm due to the nonbank asset threshold would be subject to the supervisory expectations set forth in SR Letter 15–18 or SR Letter 15–19.<sup>33</sup>

Under the final rule, a LISCC firm that is a large and noncomplex firm would no longer be subject to the qualitative component of the CCAR assessment or the provisions of the capital plan rule whereby the Board may object to the firm's capital plan; however, the firm would remain subject both to the Board's highest expectations for capital planning as set forth in SR Letter 15–18 and to ongoing supervisory scrutiny of its capital planning practices.<sup>34</sup> The Board would, however, evaluate whether the firm's activities and risk profile continued to warrant the LISCC designation.<sup>35</sup> Non-LISCC firms that qualify as large and complex as a result of the nonbank asset threshold would be subject to the supervisory expectations in SR Letter 15–18.<sup>36</sup>

The Board is accordingly adopting the proposed total consolidated asset and nonbank asset thresholds to define a large and noncomplex firm without modification. However, because the thresholds are based on static measures of size and nonbank assets, the Board will periodically re-assess the appropriateness of the thresholds for purposes of the requirements of the capital plan and stress test rules to ensure they remain suitable indicators for measuring complexity and risk.

<sup>33</sup> See SR Letter 15–19.

<sup>34</sup> See SR Letter 15–18.

<sup>35</sup> For a foreign banking organization, such an evaluation would include consideration of the banking organization's branch and agency network.

<sup>36</sup> "The public nature of the CCAR process and disclosure of the results of the Federal Reserve's qualitative assessment helps to ensure that LISCC firms and large and complex firms maintain focus on ensuring that their practices are consistent with the Federal Reserve's capital planning expectations articulated in SR Letter 15–18." 81 FR 67239 (30 September 2016) Further, the Board is amending the applicability thresholds in SR Letters 15–18 and 15–19 to reflect the definition of a large and noncomplex firm set forth in the final rule.

<sup>30</sup> See 12 CFR 243.4(a)(3).

<sup>31</sup> See 12 CFR 243.4(a)(3).

### C. Measurement and Reporting of Average Total Nonbank Assets

#### 1. General Approach to Measuring Nonbank Assets

The proposed rule set forth a methodology for calculating nonbank assets for purposes of the \$75 billion nonbank asset threshold. The measure of nonbank assets would have included the assets of all nonbank subsidiaries, any direct equity investments in unconsolidated nonbank entities held by the parent, and any nonbanking Edge Act subsidiaries. Beginning on March 31, 2017, bank holding companies with \$50 billion or more in total consolidated assets would be required to report their nonbank assets on the FR Y-9LP on new line item 17 of PC-B Memoranda, in accordance with the proposed instructions to that form.<sup>37</sup> For purposes of the capital plan cycle beginning January 1, 2017, firms would use the FR Y-9LP to determine their average total nonbank assets for purposes of the final rule,<sup>38</sup> according to the calculation methodology described in the proposal.<sup>39</sup>

<sup>37</sup> Specifically, nonbank assets are defined to include assets of consolidated nonbank subsidiaries, whether held directly or indirectly or held through lower-tier holding companies, and a bank holding company's direct investments in unconsolidated nonbank subsidiaries, associated nonbank companies, and those nonbank corporate joint ventures over which the bank holding company exercises significant influence (collectively, "nonbank companies"). Nonbank companies would exclude (i) all national banks, state member banks, state nonmember insured banks (including insured industrial banks), federal savings associations, federal savings banks, and thrift institutions (collectively, "depository institutions") and (ii) except for an Edge or Agreement Corporation designated as "Nonbanking" in the box on the front page of the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b), any subsidiary of a depository institution ("depository institution subsidiary"). All intercompany assets among the nonbank companies should be eliminated from the measure of nonbank assets, but all assets with the reporting bank holding company; any depository institution; and any depository institution subsidiary should be included.

<sup>38</sup> The \$75 billion average total nonbank asset threshold is the average of the total nonbank assets of a holding company, calculated in accordance with the instructions to the FR Y-9LP, for the four most recent consecutive quarters or, if the bank holding company has not filed the FR Y-9LP for each of the four most recent consecutive quarters, for the most recent quarter or consecutive quarters, as applicable.

<sup>39</sup> As described in the proposal and adopted as final, for purposes of the capital plan cycle beginning January 1, 2017, average total nonbank assets under the proposal would have equaled (i) total combined nonbank assets of nonbank subsidiaries, as reported on line 15a of Schedule PC-B of the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) as of December 31, 2016; plus (ii) the total amount of equity investments in nonbank subsidiaries and associated companies as reported on line 2a of Schedule PC-A of the FR Y-9LP as

Commenters suggested certain changes to the nonbank asset measure. For instance, commenters suggested that the Board exclude bank-permissible assets or cash and high-quality liquid assets held in nonbank entities. Commenters also suggested removing from the calculation intangible assets that are deducted from regulatory capital pursuant to the Board's regulatory capital rules.

The proposal defined nonbank assets to include all assets held by nonbank entities, regardless of the type of asset, in order to quantify the scale of a firm's nonbanking activities. This measure of nonbank activities would have included all assets in nonbank entities because those entities are permitted to conduct a wide range of complex activities, and assets held by those entities, including those that present low inherent risk, may be used in connection with complex activities, including prime brokerage or other trading activities. The proposal focused on the overall amount of nonbank activities because of the need for supervisory scrutiny of those activities when performed outside a banking entity. In addition, as noted above, asset measures are relatively simple and transparent measures of a firm's nonbank activities, and exclusion of specific assets based on risk could undermine the transparency of the measure. Accordingly, the final rule defines nonbank assets to include all assets of a nonbank subsidiary, regardless of type.

The Board requested comment on whether the rule should permit firms to net intercompany exposures among nonbank subsidiaries for purposes of the measurement of nonbank assets for the 2017 capital plan cycle. Commenters expressed support for permitting firms to net intercompany assets between nonbank subsidiaries, and also requested that the Board permit a firm to exclude a broader set of intercompany assets from the nonbank measure, including exposures between a nonbank subsidiary and a foreign parent holding company, if any, and non-U.S. affiliates. The final rule would permit a firm to net intercompany exposures among nonbank subsidiaries for purposes of measuring nonbank assets for the 2017 cycle, in order to avoid

of December 31, 2016, (except that any investments reflected in (i) may be eliminated); plus (iii) assets of each Edge and Agreement Corporation, as reported on the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) as of December 31, 2016, to the extent such corporation is designated as "Nonbanking" in the box on the front page of the FR 2886b; minus (v) assets of each federal savings association, federal savings bank, or thrift subsidiary, as reported on the Call Report as of December 31, 2016.

double counting those assets. However, the final rule would not permit a firm to net intercompany assets between a nonbank company and an affiliate whose assets are not included in the nonbank asset measure, as the concern of double counting is not present in this case.

Commenters also requested technical clarifications on the nonbank assets measure for purposes of the capital plan cycle beginning January 1, 2017. For instance, commenters requested that the Board clarify that the "Investments in nonbank subsidiaries" in line item 2.a reflects the underlying assets of those nonbank subsidiaries. Commenters also requested that the Board clarify whether the elimination of investments in line item 15a from line item 2a is intended to avoid double counting nonbank assets, because line item 15a of Schedule PCB reflects the underlying assets of a firm's nonbank subsidiaries. As described in the instructions to the FR Y-9LP, investments in nonbank subsidiaries should reflect the total amount of equity investments in nonbank subsidiaries and associated companies under the equity method of accounting, as prescribed by U.S. generally accepted accounting principles. The Board is hereby clarifying that for purposes of the capital plan cycle that began on January 1, 2017, the elimination of investments in nonbank subsidiaries that are reflected in line 2a of Schedule PC-A was intended to eliminate double counting in the measure.

Commenters also provided views on the frequency of the calculation of the proposed nonbank asset measure on FR Y-9LP. The proposal requested views on whether the proposed nonbank asset measure should be calculated on a daily, weekly, or monthly basis. Commenters requested that the Board finalize the calculation on a monthly basis, and indicated that monthly calculation would provide the necessary information without further burdening firms. Consistent with the comments, the final revision to the FR Y-9LP will require firms to perform the calculation on a monthly basis. The new line item will be reported quarterly on the FR Y-9LP and reflect the average nonbank assets measure for that quarter. The initial filing of the line item should be the actual amount as of December 2016, not a four-quarter average.

#### D. Lowering the *de Minimis* Exception Amount for All Bank Holding Companies

The *de minimis* exception in the capital plan rule allows a well-capitalized bank holding company to

distribute small, additional amounts of capital above those approved in its capital plan, without the need for a complete re-assessment of the bank holding company's capital plan. The proposal would have reduced the de minimis exception from 1.00 percent to 0.25 percent of a bank holding company's tier 1 capital in order to ensure that the de minimis exception serves its intended purpose, which is to provide flexibility for well-capitalized bank holding companies to respond to unanticipated events that improved a bank holding company's capital levels.

Commenters argued that the Federal Reserve should maintain the current de minimis amount of 1.00 percent in order to permit firms to address unforeseen events, such as changes in economic conditions, market disruptions, or mergers and acquisitions. Commenters noted that the Board already has the capacity to require changes or object to a de minimis capital distribution request within a 15-day period. Commenters also asserted that it is not clear that firms that have relied on the de minimis exception under the current rule have fallen below prudent capital levels or otherwise become more vulnerable to financial distress.

As described in the proposal, the Board has observed a pattern of certain bank holding companies using the de minimis exception to increase their common stock repurchases by the maximum amount allowed under the exception, even in the absence of unforeseen circumstances. For example, since July 1, 2016, the start of the first quarter subsequent to the publication of the results of CCAR 2016, the Federal Reserve has received de minimis requests from 13 of the 25 U.S. bank holding companies that participated in CCAR 2016. Ten of these firms provided requests in excess of 0.75 percent of the firm's tier 1 capital. Some firms have increased their common stock repurchases by approximately 30 percent above the amount that had been approved in their capital plans six months prior. The Federal Reserve reviewed the circumstances associated with these additional capital distributions, and this review indicated that certain firms may be treating the de minimis exception as an add-on to approved common stock distributions under the bank holding company's capital plan, rather than to address unanticipated events. While these distributions have not resulted in any given firm's capital levels falling below prudent capital levels to date, they call into question the strength of a firm's capital planning practices, as requesting additional distributions that do not

directly respond to unanticipated events suggests some firms may not have a rigorous capital planning process.

Commenters also requested that the Board consider allowing a firm to continue to make de minimis distributions equal to or less than 1.00 percent of tier 1 capital if the firm demonstrates capital ratios above those submitted in its baseline scenario projections, therefore allowing the firm to maintain its target capital ratios. Firms submit baseline projections of their capital ratios to the Federal Reserve as part of the capital plan submission: These are referred to as the BHC baseline scenario projections. The Board's current standards for reviewing a de minimis distribution request already account for a firm's performance relative to expected conditions, but do not include a requirement for the distribution to respond to an unanticipated event that improves a firm's capital levels.

One commenter requested that the Board provide an exemption from the lower de minimis exception amount for IHCs, as IHCs are closely held and thus less likely than public companies to face external pressure to engage in additional capital distributions to meet the demand of shareholders. Further, the commenter asserted that these firms are more likely to keep capital distributed from an IHC within the larger banking organization. As described above, the intended purpose of the de minimis exception is to provide flexibility for well-capitalized bank holding companies to distribute small, additional amounts of capital without the need for a complete re-assessment of the firm's capital plan, a consideration that applies equally to IHCs as well as to publicly traded companies, and is not dependent on whether distributions are made to parent companies or third-party shareholders. Like U.S.-domiciled bank holding companies, IHCs would maintain the ability under the capital plan rule to submit requests for Board approval of additional capital distributions.<sup>40</sup>

In addition, commenters requested that the Board delay finalization of the proposed change to the de minimis exception until after the Board completes its broad retrospective review of the capital planning and stress-testing frameworks. As noted, the Federal Reserve has observed that many firms are using the de minimis exception in a manner that may undermine the credibility of a firm's capital plan. Accordingly, it is important to implement this proposed change for this

capital planning cycle to strengthen firms' capital planning processes. The Board will consider any necessary harmonization in developing proposed revisions to the capital plan and stress test rules, which would be issued through the notice and comment process.

For all these reasons, the Board is adopting the proposed change to the de minimis amount, from 1.00 percent to 0.25 percent of tier 1 capital, without modification. Firms will still be able to execute capital distributions consistent with meeting their targeted capital ratios as part of the next capital planning cycle. For example, firms can address small fluctuations in capital levels by providing prior notice that the firms intend to use the de minimis exception to distribute additional capital.<sup>41</sup> In addition, the final rules retains the ability for firms to submit requests for larger amounts of capital distributions beyond those included in the firm's capital plan with the Board's prior approval.<sup>42</sup>

As noted in the proposal, one important factor in the Board's decision on a capital distribution request is the size and complexity of the bank holding company making the request. All else equal, a capital distribution request from a LISCC or large and complex firm would likely require stronger justification than a request from a large and noncomplex firm. For instance, a request from a LISCC or large and complex firm directly related to an unforeseeable event at the time of the last capital plan submission that has a positive expected impact on current or future capital ratios would likely require more supporting evidence (for instance, updated stress test results) than a similar request from a large and noncomplex firm. This difference reflects the Federal Reserve's elevated expectations for capital planning at LISCC and large and complex firms, where any revision to a firm's capital plan to increase capital distributions following the qualitative component of the CCAR assessment requires strong evidence and support.

#### *E. Blackout Period for the de Minimis Exception and Requests for Approval To Make Additional Distributions Not Included in a Bank Holding Company's Capital Plan*

The proposal would have established a one-quarter "blackout period" during the second quarter of a calendar year,

<sup>41</sup> The Board reminds firms that it generally expects a firm to obtain approval from its board of directors before it provides notice of a proposed de minimis transaction.

<sup>42</sup> See 12 CFR 225.8(g)(4).

<sup>40</sup> See 12 CFR 225.8(g)(4).

when each firm submits its updated capital plan and while the Board is conducting CCAR to review that capital plan. During this blackout period a bank holding company would not have been able to submit a notice regarding its intention to use the de minimis exception or submit a request for prior approval for additional capital distributions. Under the proposal, a bank holding company seeking to make capital distributions in the second quarter of a calendar year in excess of the amount described in the capital plan for which a non-objection was issued would have been required to submit a notice to use the de minimis exception by March 15 or submit a request for prior approval for incremental capital distributions that do not qualify for the de minimis exception by March 1 and reflect the additional distributions in its capital plan. The proposed blackout periods were expected to be effective for CCAR 2017.

Commenters questioned the need for the proposed blackout period for incremental distribution requests during the second quarter. For instance, commenters noted that the Board can already stop or impose restrictions on inappropriate distributions requested either under the de minimis exception or the additional distributions not included in a firm's approved capital plan. Commenters also requested the removal of the blackout period for IHCs to allow these firms to freely distribute capital or liquidity to their FBO parent as may be necessary to support the safety and soundness of the entire organization.

The proposed blackout period was intended to ensure that the Board's analysis in CCAR would represent a comprehensive and current evaluation of the bank holding company's capital adequacy. To the extent an unanticipated event arises, the Board generally expects that a firm could provide notice or seek approval in the third quarter, following the CCAR assessment. Were an exigent circumstance to arise (for example, one similar to the circumstance contemplated by commenters regarding distributions by an IHC to support the safety and soundness of the broader foreign banking organization), the firm could determine that there had been or will be a material change in the firm's risk profile, financial condition, or corporate structure since the bank holding company last submitted the capital plan, and resubmit its capital plan.<sup>43</sup>

Commenters also requested that the Board allow firms to request additional capital distributions for business activities, such as mergers and acquisitions or acquiring troubled assets in times of market disruptions, during the second quarter. With respect to mergers and acquisitions and similar predictable actions, firms should be planning in advance for business changes and ensure that the change is reflected in the firm's capital plan. In addition, if a firm is changing its business activities, the capital impact of the business change should be examined as part of the evaluation of a firm's capital plan to ensure the new entity is adequately capitalized.

The blackout period facilitates the sound assessment of firms' capital plans because it allows the assessment to be based on information that is as accurate and complete as possible. Accordingly, a firm should include all distributions it intends to make during the projection horizon to allow for a comprehensive analysis of distributions in CCAR. In the absence of this modification, the Federal Reserve's analysis in CCAR may not in all cases represent a comprehensive evaluation of the bank holding company's capital adequacy and the appropriateness of the bank holding company's planned capital actions in CCAR, potentially limiting the effectiveness of the evaluation. Moreover, firms should be able to plan the capital distributions for the quarter that CCAR is being conducted and include those planned distributions in their CCAR exercise. As noted above, a firm that experiences unanticipated events that materially change its risk profile, financial condition, or corporate structure during the second quarter must resubmit its capital plan for review, and based on the circumstances of the transaction and prevailing market conditions, the Board may expedite its review of the resubmitted capital plan. The Board is finalizing this aspect of the proposal without change.

#### *F. Implementation of Modified Reporting Requirements*

The proposal would have modified the series of reports used to support supervisory stress testing to reduce burdens for large and noncomplex firms. The series of reports, the Capital Assessments and Stress Testing Report (FR Y-14 series of reports; OMB No. 7100-0341), consists of three reports: the semi-annual FR Y-14A, the quarterly FR Y-14Q, and monthly FR Y-14M. Commenters were generally supportive of the proposed revisions to the reporting forms, while providing

views on specific revisions, as discussed below.

#### 1. Increased Materiality Thresholds

First, the proposal would have increased the materiality thresholds for filing schedules on the FR Y-14Q report and the FR Y-14M report for large and noncomplex firms. The FR Y-14 instructions currently define material portfolios as those with asset balances greater than \$5 billion or asset balances greater than five percent of tier 1 capital, each measured as an average for the four quarters preceding the reporting quarter.<sup>44</sup> The proposal would have revised the FR Y-14's definition of a "material portfolio" for large and noncomplex firms to mean 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.<sup>45</sup> The preamble to the proposal noted that, in modeling losses on these portfolios for large and noncomplex firms, the Federal Reserve intended to apply the median, rather than 75th percentile, loss rate from supervisory projections based on the firms that reported data, so as not to discourage firms from using the increased threshold for materiality.

While commenters were supportive of the proposal's goal of increasing materiality thresholds, they argued that the 10 percent materiality threshold was too low to substantially reduce reporting burdens. However, increasing the materiality threshold to 10 percent of tier 1 capital would relieve burden on a number of firms. For example, the Board found that the number of firms required to submit a particular Y-14M sub-schedule fell from 20 to 12 under the new threshold.<sup>46</sup> A higher threshold would not be appropriate as losses on a portfolio that represents more than 10 percent of the firm's tier 1 capital could have a material effect on a firm's capital position. Accordingly, the final rule provides that the definition of a "material portfolio" for large and noncomplex 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. This revised definition will be effective

<sup>44</sup> Respondents have the option to complete the data schedules for immaterial portfolios.

<sup>45</sup> The four-quarter average percent of tier 1 capital is calculated as the sum of the firm's preceding four quarters of balances subject to the particular materiality threshold divided by the sum of the firm's preceding four quarters of tier 1 capital.

<sup>46</sup> Analysis was performed as of March 31, 2016 reporting.

<sup>43</sup> 12 CFR 225.8(e)(4).

beginning with the first “as-of” date after the final rule has become effective.

Some commenters requested that the Board also apply the median loss rate to immaterial portfolios held at large and complex firms, instead of a loss rate equal to the 75th percentile among firms that report data to the Federal Reserve. In order to avoid discouraging firms from reporting a portfolio as immaterial, the final rule applies the median loss rate on immaterial portfolios held at all firms subject to the supervisory stress test.

In addition, a commenter requested that the Board exempt a firm from reporting historical data on a portfolio if the portfolio currently meets the materiality threshold but did not meet the materiality threshold in the past. Historical data is required for stress testing modeling purposes, and, for schedules that require submission of historical data, firms must continue to submit complete historical data for material portfolios even if the portfolios did not meet the materiality threshold during the entire historical period.

## 2. Revisions to the FR Y-14A

Under the proposal, large and noncomplex firms would no longer have been required to complete several elements of the FR Y-14A Schedule A (Summary).<sup>47</sup> Under the proposal, a large and noncomplex firm could have adopted these changes for the FR Y-14A report as of December 31, 2016, or as of June 30, 2017. Commenters were generally supportive of the proposal to modify the reporting requirements for large and noncomplex firms, observing that removing the requirements would reduce the resources needed to prepare the capital plan and alleviate concerns of an adverse supervisory finding that a capital plan is incomplete based on a failure to provide documentation. Commenters suggested that the Board also consider removing additional requirements to report certain schedules or sub-schedules of the Y-14A for all or specific groups of firms subject to the capital plan rule. In particular, commenters requested that the Board remove schedules that collect detailed information on a firm’s retail repurchase exposure and projections of retail

repurchase exposure, estimates of expected and stressed retail loan balances and loss projections, granular detail on a firm’s revenue streams, and projections of the firm’s expected regulatory capital over a five year horizon.<sup>48</sup> However, all of these schedules will continue to be used to produce either the Dodd-Frank Act stress test estimates or as part of the qualitative capital plan assessment (either through the qualitative component of the CCAR assessment for LISC and large and complex firms or through the annual supervisory review for large and noncomplex firms). The Federal Reserve reviews the items required to be reported in the FR Y-14 series of reports on an ongoing basis, and may propose additional changes in the future to further reduce burdens associated with these reporting requirements or in connection with updates to stress-test projections. The Board also continues to engage with the OCC and FDIC to promote consistency among amendments to reporting forms.

The Board did not propose any changes to the Y-14A reporting requirements related to the adverse scenario, but commenters also suggested that the Federal Reserve reduce the reporting requirements for the adverse scenario, and some commenters requested that the Federal Reserve remove the requirement to perform a stress test in the adverse scenario. Pursuant to the Dodd-Frank Act, firms are required to perform the stress test under three scenarios: baseline, adverse, and severely adverse.<sup>49</sup> In addition, the Board is not changing the requirement that firms report the results of the adverse scenario because these results inform the qualitative capital plan review, as well as the Board’s macroeconomic assessments of the ability of firms to withstand a variety of economic conditions.

## 3. Other Comments Received Regarding Regulatory Reporting

Commenters also requested that the Federal Reserve require the firms to report the FR Y-14M on a quarterly, rather than monthly, basis. Moving to quarterly reporting of the FR Y-14M would substantially affect the quality and usability of the data for loss projections. As such, the final rule does

not modify the reporting period for the FR Y-14M.

A commenter also requested that the Board increase the edit check thresholds for the FR Y-14 and increase the “permanent closure option” for edit checks. The current edit check thresholds and permanent closure of edit checks are varied and have been determined on a case-by-case basis depending on the data item to which the edit check pertains. Given the disparate nature of the data items being collected, it would be inappropriate to create uniform minimum thresholds across all schedules. The Board will continue to work with the firms and the modeling teams to review the appropriateness of edit checks and will consider feedback regarding specific edits on a case-by-case basis with the objective of improving the edit checks or reducing the burden of the edit check process.

Commenters requested that the Federal Reserve undertake a periodic, full-scale review of the data required in the FR Y-14 submissions. The Federal Reserve regularly reviews the required elements of the FR Y-14 submissions, as demonstrated by this rule, and will continue to review the requirements to ensure they are appropriate.

For the reasons described above, the Board is finalizing the revision to the FR Y-14 as proposed, and will continue to review the FR Y-14 reporting requirements to identify areas for further burden reduction.

### *G. Alignment of Initial Application of Capital Plan and Stress Test Rules and Extension of Onboarding Period for Regulatory Reporting Requirements*

The proposal would have aligned the provisions for the capital plan and stress test rules that determine when a firm that crosses the threshold of with \$50 billion in total consolidated assets must initially comply with the capital plan rule (subparts E and F of the Board’s Regulation YY, hereafter subparts E and F) and would have provided additional time before the application of these requirements for bank holding companies that cross the \$50 billion asset threshold close to the April 5 capital plan submission and stress test date. The capital plan rule provides that a bank holding company that crosses the \$50 billion asset threshold on or before December 31 of a calendar year must submit a capital plan by April 5 of the following year. Under the proposal, the cutoff date for the capital plan rule would be moved to September 30, such that a firm that crosses the \$50 billion asset threshold in the fourth quarter of a calendar year would not have been required to submit a capital plan until

<sup>47</sup> These would have included 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. A large and noncomplex firm would be 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 Summary schedule reporting form are available on the Board’s public Web site.

<sup>48</sup> Specifically, commenters requested that the Board remove the requirements to report Schedule G Retail Repurchase Exposure, Schedule A.2.a Retail Balance and Loss Projections and Schedule A.7.c PPNR Metrics, Schedule D, Regulatory Capital Transitions, and Summary—Retail repurchase sub-schedule (A.2.b).

<sup>49</sup> See 12 U.S.C. 5365(i).

April 5 of the second year after it crosses the threshold.

The proposal also would have aligned the cutoff date for initial application of the stress test rules in subparts E and F with the proposed September 30 cutoff date for the initial application of the capital plan rule. Under the stress test rules, a bank holding company that crosses the \$50 billion asset threshold before March 31 of a given year becomes subject to the stress test rules under subparts E and F beginning in the following year, and accordingly, may have only nine months before its first stress test under these subparts. Under the proposal, a bank holding company would have become subject to the stress test rules in subparts E and F in the year following the first year in which the bank holding company submitted a capital plan. As a result, a firm would have had at least a year before it would have been subject to its initial stress tests under subparts E and F.<sup>50</sup>

The proposal would also have provided an extended onboarding period for regulatory reporting requirements for a bank holding company after it first crosses the \$50 billion asset threshold. Currently, a bank holding company that crosses the \$50 billion asset threshold must prepare FR Y-14M reports as of the end of the month in which it crosses the threshold, and must submit its first FR Y-14M within 90 days after the end of the month (at which time, data for the three intervening months is due). For example, if a firm crosses the threshold as of September 30, 2017 the firm is required to submit data for the months of September, October, and November 2017 at the end of December 2017. The proposal would have required a bank holding company to begin preparing its initial FR Y-14M as of the end of the *third* month after the bank holding company first meets the \$50 billion asset threshold (rather than as of the month in which the bank holding company crosses the threshold) and to submit its first FR Y-14M within 90 days after the end of that month (at which time, data for the three intervening months would be due). For example, under the proposal, a bank holding company that crosses the \$50 billion asset threshold as of September

<sup>50</sup> Providing this extension would also have the effect of allowing firms that cross the \$50 billion in the fourth quarter of a given year as much as a year and a half before they are required to submit their first capital plan, and two and a half years before they are subject to the stress tests under subparts E and F. This extended period would allow for the significant investments firms must make to meet these requirements and account for the fact that these firms would continue to be subject to prudential supervision during the transition period.

30, 2017, would have been required to prepare its initial FR Y-14M report as of December 2017, and file its FR Y-14M reports for December 2017, January 2018, and February 2018 in March 2018. A bank holding company would have continued to prepare its FR Y-14Q report as of the end of the first quarter after it initially crosses the threshold.

Commenters were generally supportive of the modifications to the initial applicability of the capital plan and stress test rules, as the changes would simplify the application of the capital plan and stress test rules and allow for a more orderly onboarding process for new FR Y-14 filers. One commenter further requested that a newly formed IHC be provided an additional year after becoming subject to the capital plan rule prior to being subject to a qualitative objection to its capital plan. As the Board has previously indicated, newly formed IHCs will be evaluated under the same process used to evaluate all new entrants into the stress testing program.<sup>51</sup> This process includes a year of capital plan review including a more limited quantitative assessment of the IHC's capital plan based on the company's own stress scenario and any scenarios provided by the Board and a qualitative assessment of the firm's capital planning processes and supporting practices. The Board recognizes the challenges that a company new to the CCAR process will face, and expects that the company will continue to work to enhance its capital planning systems and processes to meet supervisory expectations subsequent to its first capital plan submission.<sup>52</sup>

In addition, commenters requested that a large and noncomplex firm that crosses the total consolidated asset or nonbank assets threshold or is identified as a U.S. GSIB and becomes a large and complex firm under the capital plan rule be provided a transition year before becoming subject to the qualitative component of the CCAR assessment and objection. As the thresholds for becoming a large and complex firm are calculated either on a four-quarter average or as of year-end, a firm should be able to anticipate whether it will become a large and complex firm and prepare to meet the heightened expectations set forth in SR Letter 15-18, as implemented by the CCAR qualitative review. Accordingly, the Board is finalizing the modifications to the initial applicability of the capital plan and stress test rules as proposed.

<sup>51</sup> 79 FR 64026, 64037 (October 27, 2014).

<sup>52</sup> See *id.*

#### *H. Continued Application of CCAR for LISCC Firms and Large and Complex Firms*

For LISCC firms and large and complex firms, the proposal would have maintained the current comprehensive assessment of capital planning processes, including the qualitative objection to a firm's capital plan.<sup>53</sup> The proposal included a modification to the capital plan rule's qualitative objection criteria for LISCC firms and large and complex firms to better align with the Federal Reserve's focus during the CCAR supervisory assessment. Specifically, the proposal provided that the Board may object to a the capital plan of a LISCC firm or large and complex firm if, among other factors, the *methodologies and practices that support the bank holding company's capital planning process* are not reasonable or appropriate (emphasis added). The current rule instead provided a basis for objection if the bank holding company's *methodologies for reviewing its capital adequacy process* are not reasonable or appropriate (emphasis added). This modification was intended to clarify the current scope of the qualitative component of the CCAR assessment and the areas of focus in the review of the capital plan of a LISCC firm or a large and complex firm. The Board did not receive comments on this aspect of the proposal, and is finalizing as proposed.

### **III. Other Amendments to the Capital Plan and Stress Test Rules**

#### *A. Revisions to the Time Period From Which the Market Shock "as-of" Date May Be Selected*

The proposal would have allowed the Board to select any date between October 1 of the prior year and March 1 of the year of the stress test cycle for the as-of date of the global market shock. Bank holding companies subject to the trading and counterparty component would be notified within two weeks of the selected as-of date for the global market shock, to enable the bank holding company to preserve trading and counterparty exposure data from the as-of date. Under the proposal, this change would take effect for the 2018 stress test cycle.

Commenters generally agreed with this aspect of the proposal, and the Board is finalizing it as proposed. However, some commenters requested

<sup>53</sup> As noted above, a LISCC firm that qualifies as a large and noncomplex firm no longer would be subject to the qualitative component of the CCAR assessment or objection under the final rule. No current LISCC firm qualifies as a large and noncomplex firm at this time.

further clarifications about the proposal. Commenters requested that the Federal Reserve confirm that firms will continue to be permitted to use data from weekly internal risk reporting data for the week of the chosen as-of date. In addition, commenters requested that the Board clarify whether the reporting deadlines for schedules that are related to the market shock will remain the same. Finally, commenters requested that the Federal Reserve provide the market shock scenario at the same time or soon after selecting the market shock date.

In response, the Board is confirming that the final rule will not change the Federal Reserve's practice of allowing firms to use the data from weekly internal risk reporting and does not change the reporting deadlines for the reporting schedules related to the market shock. The Board will continue to provide the scenario to firms as soon as it is finalized, although the Board must strike a balance between providing the firms with enough time to compute their stress test results and producing scenarios that are reflective of salient risks in the market.

#### B. Removal of Obsolete Provisions

In 2014, the Federal Reserve adjusted the capital planning and stress test cycles from an October 1 as-of date to a January 1 as-of date. The capital plan and stress test rules currently include several provisions reflecting the previous October 1 as-of date, as well as obsolete transition provisions for foreign banking organizations that previously relied on SR Letter 01-01,<sup>54</sup> and for the application of the supplementary leverage ratio. The proposal would have removed these provisions, as they are no longer operative. The Board received no comments on these revisions and is finalizing them as proposed.

#### IV. Other Comments Received on the Proposal

The Federal Reserve also received comments that were not directly related to the proposal. A commenter requested that the Board consider a change to potential changes to the capital conservation buffer described in a speech by Governor Tarullo on September 26, 2016, that have not yet been formally proposed.<sup>55</sup> The Federal Reserve will consider the comment when developing the upcoming

proposal and will invite comments on that proposal when it is published.

A commenter requested that the Board simplify guidance related to the development of the BHC baseline scenario. Commenters requested that the Board allow firms to use the supervisory baseline scenario as their BHC baseline scenario if in the firm's assessment it is a reasonable reflection of the current economic outlook. In addition, commenters requested that the Board simplify the reporting for the BHC baseline scenario to reduce reporting burden. Currently, the Board analyzes the BHC baseline scenario as part of the quantitative and qualitative assessment of the capital plan review. As such, the Board will continue to expect a firm that uses the supervisory baseline scenario as its BHC baseline scenario to produce an assessment as to why the supervisory baseline scenario is an appropriate representation of the firm's view of the most likely outlook for the risk factors salient to it.

A commenter requested that the Board not impose the capital plan and stress test requirements on insurance savings and loan holding companies and nonbank financial companies designated by the Financial Stability Oversight Council for Supervision by the Board without a separate notice and comment process and tailor capital planning and stress test requirement for these firms. The Board has not applied the capital plan and stress test requirements to such firms at this time, and will continue to consider how best to apply capital planning and stress testing to these firms. The Board intends to establish any such requirements through a notice and comment process.

One commenter requested that the Board describe the potential financial implications of the proposed rule changes. Another commenter expressed concerns about the cumulative impacts of the implementation of the Dodd-Frank and Basel III regulatory regimes for all commercial real estate capital sources. The Federal Reserve performed impact analysis regarding these amendments. Board staff concluded that the rule will result in a cost reduction to the public of less than \$100 million. The Federal Reserve did not identify any impact of the regulation on commercial real estate capital sources.

#### V. Administrative Law Matters

##### A. Paperwork Reduction Act

In accordance with section 3512 of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3521) (PRA), the Board may not conduct or sponsor, and a respondent is not required to respond

to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OMB control numbers are 7100-0128, 7100-0341, and 7100-0342 for this information collection. The Board reviewed the final rule under the authority delegated to the Board by OMB. No specific comments related to the PRA were received.

The final rule contains requirements subject to the PRA. The reporting requirements are found in sections 12 CFR 225.8.

The Board has a continuing interest in the public's opinions of this collection of information. At any time, commenters may submit comments regarding the burden estimate, or any other aspect of this collection of information, including suggestions for reducing burden sent to: Nuha Elmagrabi: Federal Reserve Clearance Officer, Office of the Chief Data Officer, Mail Stop K1-148, Board of Governors of the Federal Reserve System, Washington, DC 20551, with copies of such comments sent to the Office of Management and Budget (OMB) desk officer by mail to U.S. Office of Management and Budget, 725 17th Street NW., #10235, Washington, DC 20503 or by facsimile to 202-3955806, Attention, Agency Desk Officer.

##### *Proposed Revisions, With Extension for Three Years, of the Following Information Collections:*

(1) *Title of Information Collection:* Parent Company Only Financial Statements for Large Holding Companies.

*Agency Form Number:* FR Y-9C; FR Y-9LP; FR Y-9SP; FR Y-9ES; FR Y-9CS.

*OMB Control Number:* 7100-0128.

*Frequency of Response:* Quarterly, semi-annually, and annually.

*Affected Public:* Businesses or other for-profit.

*Respondents:* Bank holding companies (BHCs), savings and loan holding companies (SLHCs), securities holding companies (SHCs), and U.S. intermediate holding companies (IHCs), (collectively, "holding companies").

*Abstract:* The FR Y-9LP serves as standardized financial statements for large parent holding companies. The FR Y-9 family of reporting forms continues to be the primary source of financial data on holding companies that examiners rely on in the intervals between on-site inspections. Financial data from these reporting forms are used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate holding company mergers and

<sup>54</sup> SR Letter 01-01 (January 5, 2001), available at: [www.federalreserve.gov/boarddocs/srletters/2001/sr0101.htm](http://www.federalreserve.gov/boarddocs/srletters/2001/sr0101.htm).

<sup>55</sup> Tarullo, Daniel K. "Next Steps in the Evolution of Stress Testing" (September 26, 2016), available at: [www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm](http://www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm).

acquisitions, and to analyze a holding company's overall financial condition to ensure the safety and soundness of its operations.

**Current Actions:** The final rule amends the FR Y-9LP to include new line item 17 of PC-B Memoranda (Total nonbank assets of a holding company subject to the Federal Reserve Board's capital plan rule) for purposes of identifying large and noncomplex firms subject to the capital plan rule. Under the final rule, a top-tier holding company that is subject to the Board's capital plan rule is required to report on the FR Y-9LP the average dollar amount for the calendar quarter (as calculated on a monthly basis during the calendar quarter) of its total nonbank assets of consolidated nonbank subsidiaries, whether held directly or indirectly or held through lower-tier holding companies, and its direct investments in unconsolidated nonbank subsidiaries, associated nonbank companies, and those nonbank corporate joint ventures over which the bank holding company exercises significant influence (collectively, "nonbank companies").<sup>56</sup> This amendment will be effective as of March 31, 2017.

Nonbank companies, for purposes of this measure, exclude (i) all national banks, state member banks, state nonmember insured banks (including insured industrial banks), federal savings associations, federal savings banks, thrift institutions (collectively for purposes of this proposed item 17, "depository institutions") and (ii) except for an Edge or Agreement Corporation designated as "Nonbanking" in the box on the front page of the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b), any subsidiary of a depository institution (for purposes of this proposed item 17, "depository institution subsidiary").

All intercompany assets and operating revenue among the nonbank companies should be eliminated, but assets and operating revenue with the reporting holding company; any depository institution; any depository institution

subsidiary; and for a reporting holding company that is a subsidiary of a foreign banking organization, any branch or agency of the foreign banking organization or any non-U.S. subsidiary, non-U.S. associated company, or non-U.S. corporate joint venture of the foreign banking organization that is not held through the reporting holding company, should be included. For example, eliminate the loans made by one nonbank company to a second nonbank company, but do not eliminate loans made by one nonbank company to the parent holding company; depository institution subsidiary; or for a reporting holding company that is a subsidiary of a foreign banking organization, any branch or agency of the foreign banking organization or any non-U.S. subsidiary, non-U.S. associated company, or non-U.S. corporate joint venture of the foreign banking organization that is not held through the reporting holding company.

While the FR Y-9LP collects another measure of nonbank assets (line item 15 of PC-B Memoranda (Total combined nonbank assets of nonbank subsidiaries)), the new nonbank assets measure differs in several important ways. Specifically, new line item 17 excludes assets of an insured industrial bank, federal savings association, federal savings bank, or thrift institution and includes assets of an Edge or Agreement Corporation designated as "Nonbanking" in the box on the front page of the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b). It also includes the value of an investment in an unconsolidated nonbank company that is held directly by the holding company. While these elements may be sourced from other reporting forms, the new line item is necessary to reflect the elimination of intercompany transactions among these nonbank companies, as described above.

**Number of Respondents:** The revision applies to top-tier holding companies subject to the Board's capital plan rule (BHCs and IHCs with total consolidated assets of \$50 billion or more), for a total of 38 of the existing 792 FR Y-9LP respondents. FR Y-9C (non-Advanced Approaches holding companies or other respondents): 654; FR Y-9C (Advanced Approaches holding companies or other respondents): 13; FR Y-9SP: 4,122; FR Y-9ES: 88; FR Y-9CS: 236.

**Estimated Average Hours per Response:** FR Y-9C (non-Advanced Approaches holding companies or other respondents): 50.17 hours; FR Y-9C (Advanced Approaches holding companies or other respondents): 51.42

hours; FR Y-9LP: 5.25 hours; FR Y-9SP: 5.4 hours; FR Y-9ES: 0.5 hours; FR Y-9CS: 0.5 hours.

**Current Estimated Annual Burden Hours:** FR Y-9C (non-Advanced Approaches holding companies or other respondents): 131,245 hours; FR Y-9C (Advanced Approaches holding companies or other respondents): 2,674 hours; FR Y-9LP: 16,632 hours; FR Y-9SP: 44,518; FR Y-9ES: 44; FR Y-9CS: 472.

**Approved Revisions only change in Estimated Annual Burden Hours:** FR Y-9LP: 76 hours (0.5 hours per quarter for the 38 impacted FR Y-9LP respondents).

**Approved Total Estimated Annual Burden Hours:** FR Y-9C (non-Advanced Approaches holding companies or other respondents): 131,245 hours; FR Y-9C (Advanced Approaches holding companies or other respondents): 2,674 hours; FR Y-9LP: 16,708 hours; FR Y-9SP: 44,518; FR Y-9ES: 44; FR Y-9CS: 472.

(2) **Title of Information Collection:** Capital Assessments and Stress Testing information collection.

**Agency Form Number:** FR Y-14A/Q/M.

**OMB Control Number:** 7100-0341.  
**Frequency of Response:** Annually, semi-annually, quarterly, and monthly.

**Affected Public:** Businesses or other for-profit.

**Respondents:** The respondent panel consists of any top-tier bank holding company (BHC) or intermediate holding company (IHC) that has \$50 billion or more in total consolidated assets, as determined based on: (i) The average of the firm's total consolidated assets in the four most recent quarters as reported quarterly on the firm's Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) (OMB No. 7100-0128); or (ii) the average of the firm's total consolidated assets in the most recent consecutive quarters as reported quarterly on the firm's FR Y-9Cs, if the firm has not filed an FR Y-9C for each of the most recent four quarters. Reporting is required as of the first day of the quarter immediately following the quarter in which it meets this asset threshold, unless otherwise directed by the Board.

**Abstract:** The data collected through the FR Y-14A/Q/M schedules provide the Board with the additional information and perspective needed to help ensure that large BHCs and IHCs have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business focus, activities,

<sup>56</sup> For purposes of the FR Y-9LP, (i) a subsidiary is a company in which the reporting bank holding company directly or indirectly owns more than 50 percent of the outstanding voting stock; (ii) an associated company is a corporation in which the reporting bank holding company, directly or indirectly, owns 20 to 50 percent of the outstanding voting stock and over which the reporting bank holding company exercises significant influence; and (iii) a corporate joint venture is a corporation owned and operated by a group of companies, no one of which has a majority interest, as a separate and specific business or project for the mutual benefit of that group of companies.

and resulting risk exposures. The annual CCAR exercise is also complemented by other Board supervisory efforts aimed at enhancing the continued viability of large firms, including continuous monitoring of firms' planning and management of liquidity and funding resources and regular assessments of credit, market, and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of these financial institutions. In order to fully evaluate the data submissions, the Board may conduct follow-up discussions with or request responses to follow-up questions from respondents, as needed.

The Capital Assessments and Stress Testing information collection consists of the FR Y-14A, Q, and M reports. The semi-annual FR Y-14A collects quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.<sup>57</sup> The quarterly FR Y-14Q collects granular data on various asset classes, including loans, securities, and trading assets, and pre-provision net revenue (PPNR) for the reporting period. The monthly FR Y-14M comprises three retail portfolio- and loan-level collections, and one detailed address matching collection to supplement two of the portfolio and loan-level collections.

*Current Actions:* The Capital Assessments and Stress Testing Report (FR Y-14 series of reports; OMB No. 7100-0341) collects data used to support supervisory stress testing models and continuous monitoring efforts for bank holding companies with total consolidated assets of \$50 billion or more. The FR Y-14 consists of three reports, the semi-annual FR Y-14A, the quarterly FR Y-14Q, and monthly FR Y-14M. Each report contains multiple schedules, several of which are reported only by bank holding companies that meet specified materiality thresholds. In discussions on CCAR, several large and noncomplex firms recommended that the Board revise the FR Y-14 series of reports to reduce reporting burdens for these firms. For instance, these large and noncomplex firms suggested that the Board raise the materiality threshold for the FR Y-14 reports and reduce the detail required in the supporting documentation requirements. The final

rule reduces burden associated with reporting the FR Y-14 schedules for large and noncomplex firms by raising the materiality threshold, reducing supporting documentation requirements, removing several sub-schedules from the FR Y-14A Summary Schedule, and using the median loss rate for immaterial portfolios.

The final rule increases the materiality thresholds for filing schedules on the FR Y-14Q report and the FR Y-14M report for large and noncomplex firms. The FR Y-14 instructions currently define material portfolios as those with asset balances greater than \$5 billion or asset balances greater than five percent of tier 1 capital, each measured as an average for the four quarters preceding the reporting quarter.<sup>58</sup> The final rule revises the FR Y-14's definition of a "material portfolio" for large and noncomplex firms to mean a portfolio with asset balances greater than either (1) \$5 billion or (2) 10 percent of tier 1 capital, each measure as an average for the four quarters preceding the reporting quarter.<sup>59</sup> As a result of this change, respondents will be able to exclude certain portfolios from reporting and in some cases may not be required to report certain schedules at all.

In addition, the final rule reduces the supporting documentation a large and noncomplex firm will be required to be submit with its capital plan. Appendix A of the FR Y-14A report outlines qualitative information that a bank holding company should submit in support of its projections, including descriptions of the methodologies used to develop the internal projections of capital across scenarios and other analyses that support the bank holding company's comprehensive capital plans. The final rule revises the instructions to Appendix A of the FR Y-14A to remove the requirement that a large and noncomplex firm include in its capital plan submission certain documentation regarding its models, including any model inventory mapping document, methodology documentation, model technical documents, and model validation documentation. Large and noncomplex firms will still be required to be able to produce these materials upon request by the Federal Reserve, and all or a subset of these firms may be required to provide this

<sup>58</sup> Respondents have the option to complete the data schedules for immaterial portfolios.

<sup>59</sup> The four quarter average percent of tier 1 capital is calculated as the sum of the firm's preceding four quarters of balances subject to the particular materiality threshold divided by the sum of the firm's preceding four quarters of tier 1 capital.

documentation depending on the focus of the supervisory review of large and noncomplex firm capital plans. Removing the requirement that a large and noncomplex firm submit this information in connection with its capital plan should reduce the resources needed to prepare the plan for submission and alleviate concerns of an adverse supervisory finding that a capital plan is incomplete based on the failure to provide documentation.

Under the final rule, large and noncomplex firms will no longer be required to complete several elements of the FR Y-14A Schedule A (Summary), including 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.<sup>60</sup> The revised instructions for the FR Y-14A Summary schedule reporting form are available on the Board's public Web site. Removing these elements should reduce burdens associated with collecting and validating this data, responding to follow-up inquiries, and implementing and maintaining technical systems. Under the final rule, a large and noncomplex firm may adopt these changes for the FR Y-14A report as of December 31, 2016, or as of June 30, 2017. The Federal Reserve continues to review the details required to be reported in the FR Y-14 series of reports, and may propose additional changes in the future to further reduce burdens associated with these reporting requirements.

These changes are expected to decrease burden for the information collection by 56,454 hours. This includes a decrease in the average hours per response for the FR Y-14A due to the elimination of the requirement for large and noncomplex firms to file four Summary sub-schedules and a reduction in the supporting documentation requirements, resulting in a decrease of 6,346 hours. The modification to the materiality threshold for the FR Y-14Q and FR Y-14M reports would be anticipated to reduce the number of firms filing certain schedules on the FR Y-14Q and FR Y-14M reports. Specifically, this would result in a decrease of 1,088 hours on the FR Y-14Q report and 49,020 hours for the FR Y-14M report.

*Number of Respondents:* 38.

<sup>60</sup> A large and noncomplex firm would be required to report line item 138 of the income statement, as that line item is currently derived from the retail repurchase sub-schedule.

<sup>57</sup> A BHC that must re-submit its capital plan generally also must provide a revised FR Y-14A in connection with its resubmission.

*Estimated Average Hours per Response:* FR Y-14A: Summary, 993 hours; Macro scenario, 31 hours; Operational Risk, 18 hours; Regulatory capital transitions, 23 hours; Regulatory capital instruments, 21 hours; Retail repurchase, 20 hours; and Business plan changes, 10 hours; Adjusted Capital Submission, 100 hours. FR Y-14Q: Securities risk, 14 hours; Retail risk, 16 hours; PPNR, 711 hours; Wholesale, 152 hours; Trading, 1,926 hours; Regulatory capital transitions, 23 hours; Regulatory capital instruments, 52 hours; Operational risk, 50 hours; MSR Valuation, 24 hours; Supplemental, 4 hours; Retail FVO/HFS, 16 hours; CCR, 508 hours; and Balances, 16 hours. FR Y-14M: 1st lien mortgage, 515 hours; Home equity, 515 hours; and Credit card, 510 hours. FR Y-14 On-Going automation revisions, 480 hours; and implementation, 7,200 hours. FR Y-14 Attestation: Implementation, 4,800 hours; and on-going, 2,560 hours.

*Current Estimated Annual Burden Hours:* FR Y-14A: Summary, 75,468 hours; Macro scenario, 2,356 hours; Operational Risk, 684 hours; Regulatory capital transitions, 874 hours; Regulatory capital instruments, 798 hours; Retail repurchase, 1,520 hours; Business plan changes, 380 hours; and Adjusted Capital Submission, 500 hours. FR Y-14Q: Securities risk, 2,128 hours; Retail risk, 2,432 hours; Pre-provision net revenue (PPNR), 108,072 hours; Wholesale, 23,104 hours; Trading, 46,224 hours; Regulatory capital transitions, 3,496 hours; Regulatory capital instruments, 7,904 hours; Operational risk, 7,600 hours; Mortgage Servicing Rights (MSR) Valuation, 1,632 hours; Supplemental, 608 hours; and Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,728 hours; Counterparty, 12,192 hours; and Balances, 2,432 hours. FR Y-14M: 1st lien mortgage, 222,480 hours; Home equity, 191,580 hours; and Credit card, 146,880 hours. FR Y-14 On-going automation revisions, 18,240 hours; and implementation, 0 hours. FR Y-14 Attestation: Implementation, 0 hours; and on-going, 33,280 hours.

*Approved Revisions only change in Estimated Annual Burden Hours:* FR Y-14A: -6,346 Hours, FR Y-14Q: -1,088 FR Y-14M: -49,020 Hours.

*Approved Total Estimated Annual Burden Hours:* FR Y-14A: Summary, 69,236 hours; Macro scenario, 2,356 hours; Operational Risk, 684 hours; Regulatory capital transitions, 760 hours; Regulatory capital instruments, 798 hours; Retail repurchase, 1,520 hours; Business plan changes, 380; and Adjusted Capital Submissions, 500 hours. FR Y-14Q: Securities risk, 1,976

hours; Retail risk, 2,280 hours; Pre-provision net revenue (PPNR), 108,072 hours; Wholesale, 22,952 hours; Trading, 46,224 hours; Regulatory capital transitions, 3,496 hours; Regulatory capital instruments, 7,904 hours; Operational risk, 7,600 hours; Mortgage Servicing Rights (MSR) Valuation, 1,288 hours; Supplemental, 608 hours; and Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,440 hours; Counterparty, 12,192 hours; and Balances, 2,432 hours. FR Y-14M: 1st lien mortgage, 222,480 hours; Home equity, 185,400 hours; and Credit card, 104,040 hours. FR Y-14 On-going automation revisions, 18,240 hours; and implementation, 0 hours. FR Y-14 Attestation: Implementation, 0 hours; and on-going, 33,280 hours.

(3) *Title of Information Collection:* Recordkeeping and Reporting Requirements Associated with Regulation Y (Capital Plans).

*Agency Form Number:* Reg Y-13.

*OMB Control Number:* 7100-0342.

*Frequency of Response:* Annually.

*Affected Public:* Businesses or other for-profit.

*Respondents:* BHCs and IHCs.

*Abstract:* Regulation Y (12 CFR part 225) requires large bank holding companies (BHCs) to submit capital plans to the Federal Reserve on an annual basis and to require such BHCs to request prior approval from the Federal Reserve under certain circumstances before making a capital distribution.

*Current Actions:* The final rule contains requirements subject to the PRA. The collection of information revised by this final rule is found in section 225.8 of Regulation Y (12 CFR part 225). Under section 225.8(f)(2) of the final rule, large and noncomplex firms will no longer be subject to the provisions of the Board's capital plan rule whereby the Board can object to a capital plan on the basis of qualitative deficiencies in the firm's capital planning process. In feedback meetings that the Board held on CCR, participants from large and noncomplex firms expressed the view that the provision of the rule permitting the Board to object to a capital plan on the basis of qualitative deficiencies, in their view, required a large and noncomplex firm to develop a large amount of documentation and stress test models to the same degree as the largest firms in order to avoid risk of a public objection to its capital plan. Accordingly, this revision to section 225.8(f)(2) is expected to reduce the recordkeeping requirements for large and noncomplex firms by approximately 25 percent, or

3,000 hours for large and noncomplex firms.

The final rule defines a large and noncomplex bank holding company as a bank holding company with average total consolidated assets of \$50 billion or more but less than \$250 billion, average total nonbank assets of less than \$75 billion, and that is not a bank holding company identified as a U.S. GSIB. While the total consolidated assets measure is calculated for purposes of other regulatory requirements, the new average total nonbank assets threshold is not otherwise calculated for purposes of a regulatory requirement.

For the first calculation date (December 31, 2016), firms will be required to calculate nonbank assets by aggregating items reported on other reporting forms. Specifically, nonbank assets will be calculated as (A) total combined nonbank assets of nonbank subsidiaries, as reported on line 15a of Schedule PC-B of the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) as of December 31, 2016; plus (B) the total amount of equity investments in nonbank subsidiaries and associated companies as reported on line 2a of Schedule PC-A of the FR Y-9LP as of December 31, 2016; plus (C) assets of each Edge and Agreement Corporation, as reported on the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) as of December 31, 2016, to the extent such corporation is designated as "Nonbanking" in the box on the front page of the FR 2886b; minus (D) assets of a federal savings association, federal savings bank, or thrift subsidiary, as reported on the Report of Condition and Income (Call Report) as of December 31, 2016. Performing this calculation is expected to require 1 hour per firm.

As noted above, for calculation dates following the initial calculation date, the Federal Reserve is adding a new line item to the FR Y-9LP (Parent Company Only Financial Statements for Large Holding Companies) to collect average total nonbank assets; however, for the December 31, 2016 calculation date, a firm will be required to calculate the line item based on existing line items. The burden associated with this line item will be reflected in that collection.

*Number of Respondents:* 38.

*Estimated Average Hours per Response:* Annual capital planning recordkeeping (225.8(e)(1)(i)), 11,920 hours; annual capital planning reporting (225.8(e)(1)(ii)), 80 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 100 hours; data collections reporting ((225.8(e)(3)(i)-

(vi), 1,005 hours; data collections reporting (225.8(e)(4)), 100 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 16 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 100 hours; prior approval request requirements exceptions (225.8(g)(3)(iii)(A)), 16 hours; prior approval request requirements reports (225.8(g)(6)), 16 hours.

*Current Estimated Annual Burden Hours:* Annual capital planning recordkeeping (225.8(e)(1)(i)), 452,960 hours; annual capital planning reporting (225.8(e)(1)(ii)), 2,240 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 2,800 hours; data collections reporting ((225.8(e)(3)(i)–(vi)), 38,190 hours; data collections reporting (225.8(e)(4)), 1,000 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 32 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 2,600 hours; prior approval request requirements exceptions (225.8(g)(3)(iii)(A)), 32 hours; prior approval request requirements reports (225.8(g)(6)), 32 hours.

*Approved Revisions only change in Estimated Average Hours per Response:* For large and noncomplex firms: Annual capital planning recordkeeping (225.8(e)(1)(i)), 8,920 hours.

*Approved Revisions only change in Estimated Annual Burden Hours:* Annual capital planning reporting (225.8(e)(1)(ii)): – 54,000 hours.

*Approved Total Estimated Annual Burden Hours:* Annual capital planning recordkeeping (225.8(e)(1)(i)) (LISCC and large and complex firms), 238,400 hours; Annual capital planning recordkeeping (225.8(e)(1)(i) (large and noncomplex firms), 160,560 hours; annual capital planning reporting (225.8(e)(1)(ii)), 2,240 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 2,800 hours; data collections reporting ((225.8(e)(3)(i)–(vi)), 38,190 hours; data collections reporting (225.8(e)(4)), 1,000 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 32 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 2,600 hours; prior approval request requirements exceptions (225.8(g)(3)(iii)(A)), 32 hours; prior approval request requirements reports (225.8(g)(6)), 32 hours.

#### Regulatory Flexibility Act

The Board is providing an initial regulatory flexibility analysis with respect to this rule. The Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.*, generally requires that an agency

prepare and make available an initial regulatory flexibility analysis in connection with a notice of proposed rulemaking.

Under regulations issued by the Small Business Administration (“SBA”), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$550 million or less (a small banking organization).<sup>61</sup> As of June 30, 2016, there were approximately 594 small state member banks, 3,203 small bank holding companies and 162 small savings and loan holding companies. The proposed rule would apply only to bank holding companies with total consolidated asset of \$50 billion or more. Companies that would be subject to the proposed rule therefore substantially exceed the \$550 million total asset threshold at which a company is considered a small company under SBA regulations. Therefore, there are no significant alternatives to the proposed rule that would have less economic impact on small banking organizations. As discussed above, the projected reporting, recordkeeping, and other compliance requirements of the rule are expected to be small. The Board does not believe that the rule duplicates, overlaps, or conflicts with any other Federal rules. In light of the foregoing, the Board does not believe that the final rule would have a significant economic impact on a substantial number of small entities.

The Board welcomes comment on all aspects of its analysis. A final regulatory flexibility analysis will be conducted after consideration of comments received during the public comment period.

#### Solicitation of Comments of Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. 106–102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board sought to present the proposed rule in a simple and straightforward manner and solicited comment on how to make the proposed rule easier to understand. No comments were received on the use of plain language.

<sup>61</sup> See 13 CFR 121.201. Effective July 14, 2014, the Small Business Administration revised the size standards for banking organizations to \$550 million in assets from \$500 million in assets. 79 FR 33647 (June 12, 2014).

#### List of Subjects

##### 12 CFR Part 225

Administrative practice and procedure, Banks, banking, Capital planning, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

##### 12 CFR Part 252

Administrative practice and procedure, Banks, Banking, Capital planning, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

#### Authority and Issuance

For the reasons stated in the Supplementary Information, the Board of Governors of the Federal Reserve System amends 12 CFR chapter II as follows:

#### PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

■ 1. The authority citation for part 225 continues to read as follows:

**Authority:** 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p–1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331–3351, 3906, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

#### Subpart A—General Provisions

■ 2. Section 225.8 is revised to read as follows:

##### § 225.8 Capital planning.

(a) *Purpose.* This section establishes capital planning and prior notice and approval requirements for capital distributions by certain bank holding companies.

(b) *Scope and reservation of authority—(1) Applicability.* Except as provided in paragraph (c) of this section, this section applies to:

(i) Any top-tier bank holding company domiciled in the United States with average total consolidated assets of \$50 billion or more (\$50 billion asset threshold);

(ii) Any other bank holding company domiciled in the United States that is made subject to this section, in whole or in part, by order of the Board;

(iii) Any U.S. intermediate holding company subject to this section pursuant to 12 CFR 252.153; and

(iv) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) *Average total consolidated assets.* For purposes of this section, average total consolidated assets means the

average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y-9C, for the most recent quarter or consecutive quarters, as applicable. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average.

(3) *Ongoing applicability.* A bank holding company (including any successor bank holding company) that is subject to any requirement in this section shall remain subject to such requirements unless and until its total consolidated assets fall below \$50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(4) *Reservation of authority.* Nothing in this section shall limit the authority of the Federal Reserve to issue a capital directive or take any other supervisory or enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law.

(5) *Rule of construction.* Unless the context otherwise requires, any reference to bank holding company in this section shall include a U.S. intermediate holding company and shall include a nonbank financial company supervised by the Board to the extent this section is made applicable pursuant to a rule or order of the Board.

(c) *Transitional arrangements—(1) Transition periods for certain bank holding companies.* (i) A bank holding company that meets the \$50 billion asset threshold (as measured under paragraph (b) of this section) on or before September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the next calendar year, unless that time is extended by the Board in writing.

(ii) A bank holding company that meets the \$50 billion asset threshold after September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the second calendar year after the bank holding company meets the \$50 billion asset threshold, unless that time is extended by the Board in writing.

(iii) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a bank holding

company described in paragraph (c)(1)(i) or (ii) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(2) *Transition periods for subsidiaries of certain foreign banking organizations—(i) U.S. intermediate holding companies.* (A) A U.S. intermediate holding company required to be established or designated pursuant to 12 CFR 252.153 on or before September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the next calendar year, unless that time is extended by the Board in writing.

(B) A U.S. intermediate holding company required to be established or designated pursuant to 12 CFR 252.153 after September 30 of a calendar year must comply with the requirements of this section beginning on January 1 of the second calendar year after the U.S. intermediate holding company is required to be established, unless that time is extended by the Board in writing.

(C) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a U.S. intermediate holding company described in paragraph (c)(2)(i)(A) or (B) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(ii) *Bank holding company subsidiaries of U.S. intermediate holding companies required to be established by July 1, 2016.* (A) Notwithstanding any other requirement in this section, a bank holding company that is a subsidiary of a U.S.

intermediate holding company (or, with the mutual consent of the company and Board, another bank holding company domiciled in the United States) shall remain subject to paragraph (e) of this section until December 31, 2017, and shall remain subject to the requirements of paragraphs (f) and (g) of this section until the Board issues an objection or non-objection to the capital plan of the

relevant U.S. intermediate holding company.

(B) After the time periods set forth in paragraph (c)(2)(ii)(A) of this section, this section will cease to apply to a bank holding company that is a subsidiary of a U.S. intermediate holding company, unless otherwise determined by the Board in writing.

(d) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Advanced approaches* means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

(2) *Average total nonbank assets* means:

(i) For purposes of the capital plan cycle beginning January 1, 2017:

(A) Total combined nonbank assets of nonbank subsidiaries, as reported on line 15a of Schedule PC-B of the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) as of December 31, 2016; plus

(B) The total amount of equity investments in nonbank subsidiaries and associated companies as reported on line 2a of Schedule PC-A of the FR Y-9LP as of December 31, 2016 (except that any investments reflected in paragraph (d)(2)(i)(A) of this section may be eliminated); plus

(C) Assets of each Edge and Agreement Corporation, as reported on the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) as of December 31, 2016, to the extent such corporation is designated as "Nonbanking" in the box on the front page of the FR 2886b; minus

(D) Assets of each federal savings association, federal savings bank, or thrift subsidiary, as reported on the Report of Condition and Income (Call Report) as of December 31, 2016.

(ii) For purposes of any capital plan cycles beginning on or after January 1, 2018, the average of the total nonbank assets of a holding company subject to the Federal Reserve Board's capital plan rule, calculated in accordance with the instructions to the FR Y-9LP, for the four most recent consecutive quarters or, if the bank holding company has not filed the FR Y-9LP for each of the four most recent consecutive quarters, for the most recent quarter or consecutive quarters, as applicable.

(3) *BHC stress scenario* means a scenario designed by a bank holding company that stresses the specific vulnerabilities of the bank holding company's risk profile and operations, including those related to the company's capital adequacy and financial condition.

(4) *Capital action* means any issuance or redemption of a debt or equity capital instrument, any capital distribution, and any similar action that the Federal Reserve determines could impact a bank holding company's consolidated capital.

(5) *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.

(6) *Capital plan* means a written presentation of a bank holding company's capital planning strategies and capital adequacy process that includes the mandatory elements set forth in paragraph (e)(2) of this section.

(7) *Capital plan cycle* means the period beginning on January 1 of a calendar year and ending on December 31 of that year.

(8) *Capital policy* means a bank holding company's written assessment of the principles and guidelines used for capital planning, capital issuance, capital usage and distributions, including internal capital goals; the quantitative or qualitative guidelines for capital distributions; the strategies for addressing potential capital shortfalls; and the internal governance procedures around capital policy principles and guidelines.

(9) *Large and noncomplex bank holding company* means any bank holding company subject to this section that, as of December 31 of the calendar year prior to the capital plan cycle:

- (i) Has average total consolidated assets of less than \$250 billion;
- (ii) Has average total nonbank assets of less than \$75 billion; and
- (iii) Is not a bank holding company that is identified as a global systemically important BHC pursuant to § 217.402.

(10) *Minimum regulatory capital ratio* means any minimum regulatory capital ratio that the Federal Reserve may require of a bank holding company, by regulation or order, including the bank holding company's tier 1 and supplementary leverage ratios as calculated under 12 CFR part 217, including the deductions required under 12 CFR 248.12, as applicable, and the bank holding company's common equity tier 1, tier 1, and total risk-based capital ratios as calculated under 12 CFR part 217, including the deductions required under 12 CFR 248.12 and the transition provisions at 12 CFR 217.1(f)(4) and 217.300; except that the

bank holding company shall not use the advanced approaches to calculate its regulatory capital ratios.

(11) *Nonbank financial company supervised by the Board* means a company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(12) *Planning horizon* means the period of at least nine consecutive quarters, beginning with the quarter preceding the quarter in which the bank holding company submits its capital plan, over which the relevant projections extend.

(13) *Tier 1 capital* has the same meaning as under 12 CFR part 217.

(14) *U.S. intermediate holding company* means the top-tier U.S. company that is required to be established pursuant to 12 CFR 252.153.

(e) *General requirements*—(1) *Annual capital planning*. (i) A bank holding company must develop and maintain a capital plan.

(ii) A bank holding company must submit its complete capital plan to the Board and the appropriate Reserve Bank by April 5 of each calendar year, or such later date as directed by the Board or by the appropriate Reserve Bank with concurrence of the Board.

(iii) The bank holding company's board of directors or a designated committee thereof must at least annually and prior to submission of the capital plan under paragraph (e)(1)(ii) of this section:

(A) Review the robustness of the bank holding company's process for assessing capital adequacy,

(B) Ensure that any deficiencies in the bank holding company's process for assessing capital adequacy are appropriately remedied; and

(C) Approve the bank holding company's capital plan.

(2) *Mandatory elements of capital plan*. A capital plan must contain at least the following elements:

(i) An assessment of the expected uses and sources of capital over the planning horizon that reflects the bank holding company's size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions, including:

(A) Estimates of projected revenues, losses, reserves, and pro forma capital levels, including any minimum regulatory capital ratios (for example, leverage, tier 1 risk-based, and total risk-based capital ratios) and any additional capital measures deemed relevant by the bank holding company, over the planning horizon under expected

conditions and under a range of scenarios, including any scenarios provided by the Federal Reserve and at least one BHC stress scenario;

(B) A discussion of the results of any stress test required by law or regulation, and an explanation of how the capital plan takes these results into account; and

(C) A description of all planned capital actions over the planning horizon.

(ii) A detailed description of the bank holding company's process for assessing capital adequacy, including:

(A) A discussion of how the bank holding company will, under expected and stressful conditions, maintain capital commensurate with its risks, maintain capital above the minimum regulatory capital ratios, and serve as a source of strength to its subsidiary depository institutions;

(B) A discussion of how the bank holding company will, under expected and stressful conditions, maintain sufficient capital to continue its operations by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary;

(iii) The bank holding company's capital policy; and

(iv) A discussion of any expected changes to the bank holding company's business plan that are likely to have a material impact on the bank holding company's capital adequacy or liquidity.

(3) *Data collection*. Upon the request of the Board or appropriate Reserve Bank, the bank holding company shall provide the Federal Reserve with information regarding:

(i) The bank holding company's financial condition, including its capital;

(ii) The bank holding company's structure;

(iii) Amount and risk characteristics of the bank holding company's on- and off-balance sheet exposures, including exposures within the bank holding company's trading account, other trading-related exposures (such as counterparty-credit risk exposures) or other items sensitive to changes in market factors, including, as appropriate, information about the sensitivity of positions to changes in market rates and prices;

(iv) The bank holding company's relevant policies and procedures, including risk management policies and procedures;

(v) The bank holding company's liquidity profile and management;

(vi) The loss, revenue, and expense estimation models used by the bank holding company for stress scenario analysis, including supporting documentation regarding each model's development and validation; and

(vii) Any other relevant qualitative or quantitative information requested by the Board or by the appropriate Reserve Bank to facilitate review of the bank holding company's capital plan under this section.

(4) *Re-submission of a capital plan.* (i) A bank holding company must update and re-submit its capital plan to the appropriate Reserve Bank within 30 calendar days of the occurrence of one of the following events:

(A) 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 and the appropriate Reserve Bank under this section; or

(B) The Board or the appropriate Reserve Bank with concurrence of the Board, directs the bank holding company in writing to revise and resubmit its capital plan for any of the following reasons:

(1) The capital plan is incomplete or the capital plan, or the bank holding company's internal capital adequacy process, contains material weaknesses;

(2) There has been, or will likely be, a material change in the bank holding company's risk profile (including a material change in its business strategy or any risk exposure), financial condition, or corporate structure;

(3) The BHC stress scenario(s) are not appropriate for the bank holding company's business model and portfolios, or changes in financial markets or the macro-economic outlook that could have a material impact on a bank holding company's risk profile and financial condition require the use of updated scenarios; or

(4) The capital plan or the condition of the bank holding company raise any of the issues described in paragraph (f)(2)(ii) of this section.

(ii) A bank holding company may resubmit its capital plan to the Federal Reserve if the Board or the appropriate Reserve Bank objects to the capital plan.

(iii) The Board or the appropriate Reserve Bank with concurrence of the Board, may extend the 30-day period in paragraph (e)(4)(i) of this section for up to an additional 60 calendar days, or such longer period as the Board or the appropriate Reserve Bank, with concurrence of the Board, determines, in its discretion, appropriate.

(iv) Any updated capital plan must satisfy all the requirements of this section; however, a bank holding company may continue to rely on information submitted as part of a previously submitted capital plan to the extent that the information remains accurate and appropriate.

(5) *Confidential treatment of information submitted.* The confidentiality of information submitted to the Board under this section and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

(f) *Review of capital plans by the Federal Reserve; publication of summary results—(1) Considerations and inputs.* (i) The Board or the appropriate Reserve Bank with concurrence of the Board, will consider the following factors in reviewing a bank holding company's capital plan:

(A) The comprehensiveness of the capital plan, including the extent to which the analysis underlying the capital plan captures and addresses potential risks stemming from activities across the firm and the company's capital policy;

(B) The reasonableness of the bank holding company's capital plan, the assumptions and analysis underlying the capital plan, and the robustness of its capital adequacy process; and

(C) The bank holding company's ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon, including but not limited to any scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(ii) of this section.

(ii) The Board or the appropriate Reserve Bank with concurrence of the Board, will also consider the following information in reviewing a bank holding company's capital plan:

(A) Relevant supervisory information about the bank holding company and its subsidiaries;

(B) The bank holding company's regulatory and financial reports, as well as supporting data that would allow for an analysis of the bank holding company's loss, revenue, and reserve projections;

(C) As applicable, the Federal Reserve's own pro forma estimates of the firm's potential losses, revenues, reserves, and resulting capital adequacy under expected and stressful conditions, including but not limited to any scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(ii) of this section,

as well as the results of any stress tests conducted by the bank holding company or the Federal Reserve; and

(D) Other information requested or required by the Board or the appropriate Reserve Bank, as well as any other information relevant, or related, to the bank holding company's capital adequacy.

(2) *Federal Reserve action on a capital plan—(i) Timing of action.* The Board or the appropriate Reserve Bank with concurrence of the Board, will object, in whole or in part, to the capital plan or provide the bank holding company with a notice of non-objection to the capital plan:

(A) By June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section; and

(B) For a capital plan resubmitted pursuant to paragraph (e)(4) of this section, within 75 calendar days after the date on which a capital plan is resubmitted, unless the Board provides notice to the company that it is extending the time period.

(ii) *Objection.* (A) *Large and noncomplex bank holding companies.* The Board, or the appropriate Reserve Bank with concurrence of the Board, may object to a capital plan submitted by a large and noncomplex bank holding company if it determines that the bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon.

(B) *Bank holding companies that are not large and noncomplex bank holding companies.* The Board or the appropriate Reserve Bank with concurrence of the Board, may object to a capital plan submitted by a bank holding company that is not a large and noncomplex bank holding company if it determines that:

(1) The bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon;

(2) The bank holding company has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process;

(3) The assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies and practices that support its capital planning process, are not reasonable or appropriate; or

(4) The bank holding company's capital planning process or proposed capital distributions otherwise constitute an unsafe or unsound practice, or would violate any law, regulation, Board order, directive, or condition imposed by, or written agreement with, the Board or the appropriate Reserve Bank. In determining whether a capital plan or any proposed capital distribution would constitute an unsafe or unsound practice, the Board or the appropriate Reserve Bank would consider whether the bank holding company is and would remain in sound financial condition after giving effect to the capital plan and all proposed capital distributions.

(iii) *Notification of decision.* The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to object to a capital plan.

(iv) *General distribution limitation.* If the Board or the appropriate Reserve Bank objects to a capital plan and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than capital distributions arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio or capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(v) *Publication of summary results.* The Board may disclose publicly its decision to object or not object to a bank holding company's capital plan under this section, along with a summary of the Board's analyses of that company. Any disclosure under this paragraph will occur by June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section, unless the Board determines that a later disclosure date is appropriate.

(3) *Request for reconsideration or hearing*—(i) *General.* Within 15 calendar days of receipt of a notice of objection to a capital plan by the Board or the appropriate Reserve Bank:

(A) A bank holding company may submit a written request to the Board requesting reconsideration of the objection, including an explanation of why reconsideration should be granted. Within 15 calendar days of receipt of the bank holding company's request, the Board will notify the company of its decision to affirm or withdraw the objection to the bank holding company's

capital plan or a specific capital distribution; or

(B) As an alternative to paragraph (f)(3)(i)(A) of this section, a bank holding company may request an informal hearing on the objection.

(ii) *Request for an informal hearing.* (A) A request for an informal hearing shall be in writing and shall be submitted within 15 calendar days of a notice of an objection. The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 calendar days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than those capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(4) *Application of this section to other bank holding companies.* The Board may apply this section, in whole or in part, to any other bank holding company by order based on the institution's size, level of complexity, risk profile, scope of operations, or financial condition.

(g) *Approval requirements for certain capital actions*—(1) *Circumstances requiring approval.* Notwithstanding a notice of non-objection under paragraph (f)(2)(i) of this section, a bank holding company may not make a capital distribution (excluding any capital distribution arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio) under the following circumstances, unless it receives prior approval from the Board or appropriate Reserve Bank pursuant to paragraph (g)(5) of this section:

(i) After giving effect to the capital distribution, the bank holding company would not meet a minimum regulatory capital ratio;

(ii) The Board or the appropriate Reserve Bank with concurrence of the

Board, notifies the company in writing that the Federal Reserve has determined that the capital distribution would result in a material adverse change to the organization's capital or liquidity structure or that the company's earnings were materially underperforming projections;

(iii) Except as provided in paragraph (g)(2) of this section, the dollar amount of the capital distribution will exceed the amount described in the capital plan for which a non-objection was issued under this section, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the quarter at issue; or

(iv) The capital distribution would occur after the occurrence of an event requiring resubmission under paragraphs (e)(4)(i)(A) or (B) of this section and before the Federal Reserve has acted on the resubmitted capital plan.

(2) *Exception for well capitalized bank holding companies.* (i) A bank holding company may make a capital distribution for which the dollar amount exceeds the amount described in the capital plan for which a non-objection was issued under paragraph (f)(2)(i) of this section if the following conditions are satisfied:

(A) The bank holding company is, and after the capital distribution would remain, well capitalized as defined in § 225.2(r);

(B) The bank holding company's performance and capital levels are, and after the capital distribution would remain, consistent with its projections under expected conditions as set forth in its capital plan under paragraph (f)(2)(i) of this section;

(C) Until March 31, 2017, the annual aggregate dollar amount of all capital distributions in the period beginning on July 1 of a calendar year and ending on June 30 of the following calendar year would not exceed the total amounts described in the company's capital plan for which the bank holding company received a notice of non-objection by more than 1.00 percent multiplied by the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C;

(D) Beginning April 1, 2017, the annual aggregate dollar amount of all capital distributions in the period beginning on July 1 of a calendar year and ending on June 30 of the following calendar year would not exceed the total amounts described in the company's capital plan for which the bank holding company received a notice of non-objection by more than 0.25 percent multiplied by the bank holding

company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C;

(E) Between July 1 of a calendar year and March 15 of the following calendar year, the bank holding company provides the appropriate Reserve Bank with notice 15 calendar days prior to a capital distribution that includes the elements described in paragraph (g)(4) of this section; and

(F) The Board or the appropriate Reserve Bank with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank shall apply the criteria described in paragraph (g)(5)(ii) of this section.

(ii) The exception in this paragraph (g)(2) shall not apply if the Board or the appropriate Reserve Bank notifies the bank holding company in writing that it is ineligible for this exception.

(3) *Net distribution limitation*—(i) *General.* Notwithstanding a notice of non-objection under paragraph (f)(2)(i) of this section, a bank holding company must reduce its capital distributions in accordance with paragraph (g)(3)(ii) of this section if the bank holding company raises a smaller dollar amount of capital of a given category of regulatory capital instruments than it had included 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.

(ii) *Reduction of distributions*—(A) *Common equity tier 1 capital.* If the bank holding company raises a smaller dollar amount of common equity tier 1 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to common equity tier 1 capital such that the dollar amount of the bank holding company's capital distributions, net of the dollar amount of its capital raises, ("net distributions") relating to common equity tier 1 capital is no greater than the dollar amount of net distributions relating to common equity tier 1 capital included 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.

(B) *Additional tier 1 capital.* If the bank holding company raises a smaller dollar amount of additional tier 1 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to additional tier 1 capital (other than scheduled payments on additional tier 1 capital instruments) such that the dollar

amount of the bank holding company's net distributions relating to additional tier 1 capital is no greater than the dollar amount of net distributions relating to additional tier 1 capital included 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.

(C) *Tier 2 capital.* If the bank holding company raises a smaller dollar amount of tier 2 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to tier 2 capital (other than scheduled payments on tier 2 capital instruments) such that the dollar amount of the bank holding company's net distributions relating to tier 2 capital is no greater than the dollar amount of net distributions relating to tier 2 capital included 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.

(iii) *Exceptions.* Paragraphs (g)(3)(i) and (ii) of this section shall not apply:

(A) To the extent that the Board or appropriate Reserve Bank indicates in writing its non-objection pursuant to paragraph (g)(5) of this section, following a request for non-objection from the bank holding company that includes all of the information required to be submitted under paragraph (g)(4) of this section;

(B) To capital distributions arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio that the bank holding company had not included in its capital plan;

(C) To the extent that the bank holding company raised a smaller dollar amount of capital in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section due to employee-directed capital issuances related to an employee stock ownership plan;

(D) To the extent that the bank holding company raised a smaller dollar amount of capital in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section due to a planned merger or acquisition that is no longer expected to be consummated or for which the consideration paid is lower than the projected price in the capital plan;

(E) Until March 31, 2017, to the extent that the dollar amount by which the bank holding company's net distributions exceed the dollar amount of net distributions included in its capital plan in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section, as

measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter, is less than 1.00 percent of the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C; between July 1 of a calendar year and March 15 of the following calendar year, the bank holding company provides the appropriate Reserve Bank with notice 15 calendar days prior to any capital distribution in that category of regulatory capital instruments that includes the elements described in paragraph (g)(4) of this section; and the Board or the appropriate Reserve Bank with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank shall apply the criteria described in paragraph (g)(5)(ii) of this section; or

(F) Beginning April 1, 2017, to the extent that the dollar amount by which the bank holding company's net distributions exceed the dollar amount of net distributions included in its capital plan in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter, is less than 0.25 percent of the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's most recent first-quarter FR Y-9C; between July 1 of a calendar year and March 15 of the following calendar year, the bank holding company provides the appropriate Reserve Bank with notice 15 calendar days prior to any capital distribution in that category of regulatory capital instruments that includes the elements described in paragraph (g)(4) of this section; and the Board or the appropriate Reserve Bank with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank shall apply the criteria described in paragraph (g)(5)(ii) of this section.

(iv) The exceptions in paragraph (g)(3)(iii) of this section shall not apply if the Board or the appropriate Reserve Bank notifies the bank holding company in writing that it is ineligible for this exception.

(4) *Contents of request.* (i) A request for a capital distribution under this section shall be filed between July 1 of a calendar year and March 1 of the following calendar year with the

appropriate Reserve Bank and the Board and shall contain the following information:

(A) The bank holding company'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;

(B) The purpose of the transaction;

(C) 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

(D) Any additional information requested by the Board or the appropriate Reserve Bank (which may include, among other things, an assessment of the bank holding company's capital adequacy under a revised stress scenario provided by the Federal Reserve, a revised capital plan, and supporting data).

(ii) Any request submitted with respect to a capital distribution described in paragraph (g)(1)(i) of this section shall also include a plan for restoring the bank holding company's capital to an amount above a minimum level within 30 calendar days and a rationale for why the capital distribution would be appropriate.

(5) *Approval of certain capital distributions.* (i) The Board or the appropriate Reserve Bank with concurrence of the Board, will act on a request under this paragraph (g)(5) within 30 calendar days after the receipt of all the information required under paragraph (g)(4) of this section.

(ii) In acting on a request under this paragraph, the Board or appropriate Reserve Bank will apply the considerations and principles in paragraph (f) of this section. In addition, the Board or the appropriate Reserve Bank may disapprove the transaction if the bank holding company does not provide all of the information required to be submitted under paragraph (g)(4) of this section.

(6) *Disapproval and hearing.* (i) The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to disapprove any proposed capital distribution. Within 15 calendar days after receipt of a disapproval by the Board, the bank holding company may submit a written request for a hearing.

(A) The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 calendar days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, approves the capital distribution at issue, the bank holding company may not make such capital distribution.

**PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)**

■ 3. The authority citation for part 252 continues to read as follows:

**Authority:** 12 U.S.C. 321–338a, 481–486, 1467a, 1818, 1828, 1831n, 1831o, 1831p–l, 1831w, 1835, 1844(b), 1844(c), 3101 *et seq.*, 3101 note, 3904, 3906–3909, 4808, 5361, 5362, 5365, 5366, 5367, 5368, 5371.

■ 4. Section 252.42 is amended by revising paragraph (p) to read as follows:

**§ 252.42 Definitions.**

\* \* \* \* \*

(p) *Stress test cycle* means the period beginning on January 1 of a calendar year and ending on December 31 of that year.

\* \* \* \* \*

■ 5. Section 252.43 is amended by ■ a. Revising paragraph (b); and ■ b. Removing paragraph (c).

The revision reads as follows:

**§ 252.43 Applicability.**

\* \* \* \* \*

(b) *Transitional arrangements.* (1) A bank holding company that becomes a covered company on or before September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the second calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

(2) A bank holding company that becomes a covered company after September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the third calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

■ 6. Section 252.44 is amended by revising paragraph (b) to read as follows:

**§ 252.44 Annual analysis conducted by the Board.**

\* \* \* \* \*

(b) *Economic and financial scenarios related to the Board's analysis.* The Board will conduct its analysis under this section using a minimum of three different scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario. The Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than February 15 of each year, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than March 1 of that year.

■ 7. Section 252.46 is amended by revising paragraph (b)(1) to read as follows:

**§ 252.46 Review of the Board's analysis; publication of summary results.**

\* \* \* \* \*

(b) *Publication of results by the Board.* (1) The Board will publicly disclose a summary of the results of the Board's analyses of a covered company by June 30 of the calendar year in which the stress test was conducted pursuant to § 252.44.

\* \* \* \* \*

■ 8. Section 252.52 is amended by revising paragraphs (k) and (r) to read as follows:

**§ 252.52 Definitions.**

\* \* \* \* \*

(k) *Planning horizon* means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle over which the relevant projections extend.

\* \* \* \* \*

(r) *Stress test cycle* means the period beginning on January 1 of a calendar year and ending on December 31 of that year.

\* \* \* \* \*

■ 9. Section 252.53 is amended by revising paragraph (b) to read as follows:

**§ 252.53 Applicability.**

\* \* \* \* \*

(b) *Transitional arrangements.* (1) A bank holding company that becomes a covered company on or before September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the second calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

(2) A bank holding company that becomes a covered company after

September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the third calendar year after the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

■ 10. Section 252.54 is amended by revising paragraphs (a), (b)(1), (b)(2)(i), (b)(4)(i), and (b)(4)(iii) to read as follows:

§ 252.54 Annual stress test.

(a) In general. A covered company must conduct an annual stress test. The stress test must be conducted by April 5 of each calendar year based on data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) Scenarios provided by the Board—

(1) In general. In conducting a stress test under this section, a covered company must, at a minimum, use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, the Board will provide a description of the scenarios to each covered company no later than February 15 of the calendar year in which the stress test is performed pursuant to this section.

(2) Additional components. (i) The Board may require a covered company with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y-14), to include a trading and counterparty component in its adverse and severely adverse scenarios in the stress test required by this section:

(A) For the stress test cycle beginning on January 1, 2017, the data used in this component must be as of a date selected by the Board between January 1, 2017 and March 1, 2017, and the Board will communicate the as-of date and a description of the component to the company no later than March 1, 2017; and

(B) For the stress test cycle beginning on January 1, 2018, and for each stress test cycle beginning thereafter, the data used in this component must be as of a date selected by the Board between October 1 of the previous calendar year and March 1 of the calendar year in which the stress test is performed pursuant to this section, and the Board will communicate the as-of date and a description of the component to the

company no later than March 1 of the calendar year in which the stress test is performed pursuant to this section.

\* \* \* \* \*

(4) Notice and response—(i) Notification of additional component. If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. The Board will provide such notification no later than December 31 of the preceding calendar year. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

\* \* \* \* \*

(iii) Description of component. The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by March 1 of the calendar year in which the stress test is performed pursuant to this section.

■ 11. Section 252.55 is amended by revising paragraphs (a), (b)(4)(i), and (b)(4)(iii) to read as follows:

§ 252.55 Mid-cycle stress test.

(a) Mid-cycle stress test requirement. In addition to the stress test required under § 252.54, a covered company must conduct a mid-cycle stress test. The stress test must be conducted by September 30 of each calendar year based on data as of June 30 of that calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) \* \* \*

(4) Notice and response—(i) Notification of additional component. If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. The Board will provide such notification no later than June 30. The notification will include a general description of the additional

component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

\* \* \* \* \*

(iii) Description of component. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by September 1 of the calendar year prior to the year in which the stress test is performed pursuant to this section.

■ 12. Section 252.57 is amended by revising paragraph (a) to read as follows:

§ 252.57 Reports of stress test results.

(a) Reports to the Board of stress test results. (1) A covered company must report the results of the stress test required under § 252.54 to the Board in the manner and form prescribed by the Board. Such results must be submitted by April 5 of the calendar year in which the stress test is performed pursuant to § 252.54, unless that time is extended by the Board in writing.

(2) A covered company must report the results of the stress test required under § 252.55 to the Board in the manner and form prescribed by the Board. Such results must be submitted by October 5 of the calendar year in which the stress test is performed pursuant to § 252.55, unless that time is extended by the Board in writing.

\* \* \* \* \*

■ 13. Section 252.58 is amended by revising paragraph (a)(1)(ii) to read as follows:

§ 252.58 Disclosure of stress test results.

(a) \* \* \*

(1) \* \* \*

(ii) A covered company must publicly disclose a summary of the results of the stress test required under § 252.55. This disclosure must occur in the period beginning on October 5 and ending on November 4 of the calendar year in which the stress test is performed pursuant to § 252.55, unless that time is extended by the Board in writing.

\* \* \* \* \*

By order of the Board of Governors of the Federal Reserve System, January 30, 2017.

Robert deV. Frierson, Secretary of the Board.

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