

[Banking and Finance Law Daily Wrap Up, CAPITAL AND BASEL ACCORDS —90 percent of large BHCs get passing grade for capital planning, \(Jun. 30, 2016\)](#)

Banking and Finance Law Daily Wrap Up

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The Federal Reserve Board has announced the results of its 2016 Comprehensive Capital Analysis and Review or CCAR.

Forward-looking capital-planning. The CCAR is an annual exercise conducted by the Fed since 2011 to assess whether the largest bank holding companies operating in the United States have sufficient capital to continue operations throughout times of economic and financial stress and that they have robust, forward-looking capital-planning processes that account for their unique risks. The CCAR focuses on quantitative and qualitative factors. Quantitative factors include a firm's projected capital ratios under a hypothetical scenario of severe economic and financial market stress. Qualitative factors include the strength of the firm's capital planning process, which incorporate the risk management, internal controls, and governance practices that support the process.

The Fed uses the CCAR to determine whether the BHCs can conduct planned capital actions such as dividend payments and share buybacks, and issuances. If the Fed objects to a capital plan based on the quantitative or qualitative concerns, the BHC may not make any capital distribution unless expressly authorized by the Fed.

Strengthened capital planning. According to its "[Comprehensive Capital Analysis and Review 2016: Assessment Framework and Results](#)," the Fed found that "on balance, capital planning processes at most of the BHCs participating in CCAR have strengthened since [2015]" and that large and non-complex CCAR firms have generally made steady progress, with most of the firms either meeting or close to meeting supervisory expectations." On the other hand, the report results found that while most BHCs subject to the Large Institution Supervision Coordination Committee framework and other large complex firms have also made progress since CCAR 2015, "many continue to fall short of meeting the higher supervisory expectations the Federal Reserve set forth for those firms."

Of the 33 BHCs currently subject to the CCAR, the Fed did not object to the capital plans of 30 BHCs. The Fed did object to the capital plans of two banking firms—Deutsche Bank Trust Corporation and Santander Holdings USA, Inc., based on qualitative concerns. Also, the Fed gave a "conditional non-objection" to the capital plan submitted by Morgan Stanley which required the firm to submit a new capital plan by Dec. 29, 2016, to address certain weaknesses in its capital planning processes.

Objections. For Deutsche Bank Trust Corporation, the Fed found material unresolved supervisory issues that critically undermine its capital planning process, especially deficiencies in the risk management and control infrastructure. As for Santander Holdings, the Fed found ongoing deficiencies in the risk management framework, including important features of the risk measurement and monitoring function; stress testing processes; and internal controls, governance, and oversight functions. Finally, the Fed found shortcomings in Morgan Stanley's scenario design practices "which do not adequately reflect risks and vulnerabilities specific to the firm, weaknesses in some aspects of the firm's modeling practices, and weaknesses in governance and controls around both scenario design and modeling practices."

Enhanced resiliency. Commenting on the CCAR results, Fed Governor Daniel K. Tarullo [said](#), "Over the six years in which CCAR has been in place, the participating firms have strengthened their capital positions and

improved their risk-management capacities. Continued progress in both areas will further enhance the resiliency of the nation's largest banks."

Industry reaction. Addressing the CCAR results, James Gorman, Chairman and Chief Executive Officer of Morgan Stanley, [noted](#), "[W]e are committed to addressing the Fed's concerns about our capital planning process and fully expect to meet their requirements within the established timeframe."

Santander Holdings USA's Chief Executive Officer Scott Powell [said](#), "Our results confirm that Santander Holdings USA has strong capital levels that are well above the required minimums. We have made progress, but our internal capital planning, stress testing, internal controls, governance and oversight require further improvement to meet our regulators' expectations." He added, "We are financially sound. These results do not affect our ability to serve our customers. We remain committed to enhancing their experience, helping people and businesses prosper and managing our business to the highest standards in a way that is Simple, Personal and Fair."

Bill Woodley, CEO of DB USA Corporation and Deputy CEO of Deutsche Bank Americas [stated](#), "The capital adequacy of Deutsche Bank Trust Corporation has never been in doubt." He added, "We appreciate the Federal Reserve's recognition of our progress, and we will implement the lessons learned this year in order to strengthen our capital planning process for future CCAR submissions." It should be noted that Deutsche Bank will launch its U.S. intermediate holding company—DB USA Corporation (DB USA)—on July 1, 2016; and that Deutsche Bank Trust Corporation will be included in DB USA as of that date. DB USA will participate in the CCAR beginning in 2018.

Finally, two trade associations weighed in on the CCAR results. Financial Services Forum Acting CEO John Dearie [noted](#) that the CCAR and the recent results of the Dodd-Frank Act stress tests "reflect the significant progress achieved since the financial crisis to improve the strength and resilience of the U.S. banking system." He added, "As a result, the U.S. banking system has never been stronger and is now able to withstand the shock of even the highly unlikely severely adverse scenario imposed by CCAR."

Francis Creighton, Executive Vice President of Government Affairs for the Financial Services Roundtable [added](#), "Financial institutions are strong, as evidenced by last week's stress test results in addition to the Federal Reserve accepting the vast majority of this year's capital plans. These results, as well as a variety of other factors, demonstrate the resiliency of the financial sector as a source of stability and potential growth in the economy." He did note, however, "The Federal Reserve capital planning process sets out a variety of standards that, in some cases, remain unclear. We applaud efforts by the Federal Reserve to further tailor these standards and provide institutions with meaningful feedback on how to adjust to meet evolving regulatory expectations."

Companies: DB USA Corporation; Deutsche Bank Trust Corporation; Financial Services Forum; Financial Services Roundtable; Morgan Stanley; Santander Holdings USA, Inc.

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