In keeping with its assessment of the financial impact of COVID-19, the Fed is extending the measures for an additional quarter.

In light of continued economic uncertainty associated with the coronavirus pandemic, the Federal Reserve Board has announced that it will extend for an additional quarter several measures to ensure that large banks maintain a high level of capital resilience. Accordingly, for the fourth quarter of 2020, large banks—those with more than $100 billion in total assets—will be prohibited from making share repurchases. In addition, dividend payments will be "capped and tied to a formula based on recent income." As communicated by the Fed, capital positions of large banks have remained strong during the third quarter of 2020 with such restrictions in place, and the agency wants to ensure that those strong capital positions continue through the remainder of the year.

Backdrop. In June 2020, the Fed released the results of its annual Dodd-Frank Act stress test and its analysis, finding that "all large banks were sufficiently capitalized." Still, in light of the economic uncertainty surrounding COVID-19, the Fed established several restrictions to "preserve bank capital, which provides a cushion against loan losses and supports lending." Along with its conventional stress test, the Fed conducted a sensitivity analysis to assess the resiliency of large banks under three hypothetical recessions, or downside scenarios, which could result from the coronavirus event (see Banking and Finance Law Daily, June 26, 2020). Later, the Fed released corrected stress test results, stemming from an error in projected trading losses, with the agency revising capital requirements for two banks (see Banking and Finance Law Daily, Sept. 8, 2020).

Earlier in September, the Fed released hypothetical scenarios for a second round of bank stress tests. This second batch of stress tests is being sought not only in connection with the continued economic uncertainty of the coronavirus pandemic, but also for financial institutions to estimate projected revenues, losses, reserves, and pro forma capital levels as part of their 2020 capital plan resubmission (see Banking and Finance Law Daily, Sept. 18, 2020). The Fed plans on releasing the results of the second stress test "by the end of the year."