April 10, 2018

Federal Reserve Board seeks comment on proposal to simplify its capital rules for large banks while preserving strong capital levels that would maintain their ability to lend under stressful conditions

For release at 3:00 p.m. EDT

The Federal Reserve Board on Tuesday asked for comment on a proposal that would simplify its capital rules for large banks while preserving strong capital levels that would maintain their ability to lend to households and businesses under stressful conditions.

The proposal would introduce a "stress capital buffer," or SCB, which would in part integrate the forward-looking stress test results with the Board's non-stress capital requirements. The result would produce capital requirements for large banking organization that are firm-specific and risk-sensitive.

"Our regulatory measures are most effective when they are as simple and transparent as possible, and this proposal significantly simplifies our capital regime while maintaining its strength," Vice Chairman for Supervision Randal K. Quarles said. "It is a good example of how our work can be done more efficiently and effectively, and in a way that bolsters the resiliency of the financial system."

Currently, bank holding companies with more than $50 billion in total consolidated assets undergo annual supervisory stress tests run by the Board, known as the Comprehensive Capital Analysis and Review (CCAR). CCAR requires firms to demonstrate their ability to continue to lend under hypothetical adverse economic conditions. These firms are also subject to non-stress capital requirements.

The SCB would be sized through the stress test and would be part of the firm's ongoing capital requirements, producing a tailored and risk-sensitive capital regime for large banking organizations. With the proposed changes, large firms would be required to meet 14 capital-related requirements, instead of the current 24.

For example, if a firm has a common equity tier 1 capital ratio of 9 percent and it declines to 6 percent under the hypothetical severely adverse scenario of the stress test, its SCB for the coming year would be 3 percent. The SCB would then be added to the minimum 4.5 percent common equity capital requirement, which remains unchanged. This would result in a 7.5 percent common equity capital requirement for the coming year. If the firm is a global systemically important bank (GSIB), its GSIB surcharge--an additional cushion of capital that is held by the largest banks--would be added to the SCB. Additionally, four quarters of planned dividends would be added to the SCB.

The Board estimates that, relative to current requirements, the proposed changes would generally maintain or somewhat increase the amount of capital required for GSIBs and generally decrease modestly the amount of capital required for most non-GSIBs. However, a firm's SCB will vary in size throughout the economic cycle depending on the firm's risk exposures and the severity of the hypothetical stress test scenarios. No firm is expected to need to raise additional capital as a result of this proposal.

The Board's proposal would also modify several assumptions in the CCAR process to better align them with a firm's expected actions under stress.

U.S. firms have substantially increased their capital since the first round of stress tests in 2009. The common equity capital ratio of the bank holding companies in the 2017 CCAR has more than doubled from 5.5 percent in the first quarter of 2009 to 12.1 percent in the fourth quarter of 2017. This reflects an increase of more than $720 billion in common equity capital to a total of $1.2 trillion.

Comments on the proposal will be accepted for 60 days.

- Attachment 1 (PDF)
- Attachment 2 (PDF)

Related Content

Board Votes

Last Update: April 10, 2018