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An Introduction to CCAR

Comprehensive Capital Analysis & Review (CCAR)

CCAR

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What is CCAR?

Purpose	To facilitate supervisory assessments of the bank holding company's ("BHC") internal capital planning processes, capital adequacy, and proposed capital distributions
Scope & Frequency	The capital plans rule applies to BHCs with assets greater than $50 billion and requires that these BHCs develop and submit a capital plan to the Federal Reserve on an annual basis and to request prior approval from the Federal Reserve under certain circumstances before making a capital distribution
Strengthening Approach	The CCAR represents a substantial strengthening of the Federal Reserve's approach to ensuring that large BHCs have thorough and robust processes for managing and allocating their capital resources
Importance of Capital	Capital is essential to a BHCs ability to absorb unexpected losses and continue to lend to creditworthy businesses and consumers
Fed Expectations	The Federal Reserve expects large, complex BHC's to hold sufficient capital to maintain access to funding, to continue to serve as credit intermediaries, to meet their obligations to creditors and counterparties, and to continue operations, even in an adverse environment

Mandatory Elements of a Capital Plan

The capital plan rule defines a capital plan as “a written presentation of a company’s capital planning strategies and capital adequacy process that includes certain mandatory elements.” These mandatory elements are organized into five main components:

Elements of a Capital Plan

- An assessment of the expected uses and sources of capital over the planning horizon
- A description of all planned capital actions over the planning horizon
- A discussion of any expected changes to the BHC’s business plan that are likely to have a material impact on the BHC’s capital adequacy or liquidity
- A detailed description of the BHC’s process for assessing capital adequacy
- A BHC’s capital policy

Supervisory Review of Capital Plan

The supervisory review of a BHC's capital plan includes an assessment of:

- The comprehensiveness of the capital plan, including the suitability of the BHC scenarios
- Extent to which the risk measurement and other analysis underlying the plan capture and appropriately address potential risks stemming from all activities across the BHC under baseline and stressed operating conditions
- The reasonableness of the BHC's assumptions and analysis underlying the capital plan and a review of the robustness of the BHC's capital adequacy process
- The BHC's capital policy
- The BHC's ability to maintain capital above each minimum regulatory capital ratio and above a tier 1 common ratio of 5 percent on a pro forma basis under expected and stressful conditions throughout the planning horizon

CCAR 2012 Results

Per PWC's FS Regulatory Brief, the key themes of the CCAR 2012 results include:

- The CCAR 2012 methodology is the most severe, comprehensive and rigorous of the three rounds of stress tests conducted by US banks;
- CCAR 2012 results for the largest banking organizations indicate a more highly capitalized and resilient segment of the banking industry; and
- CCAR institutions will continue enhancing their capital management process and related validation processes.

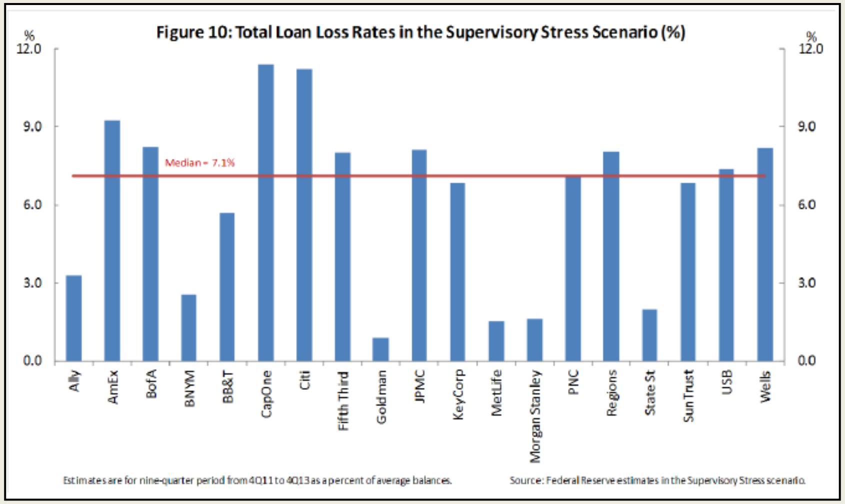
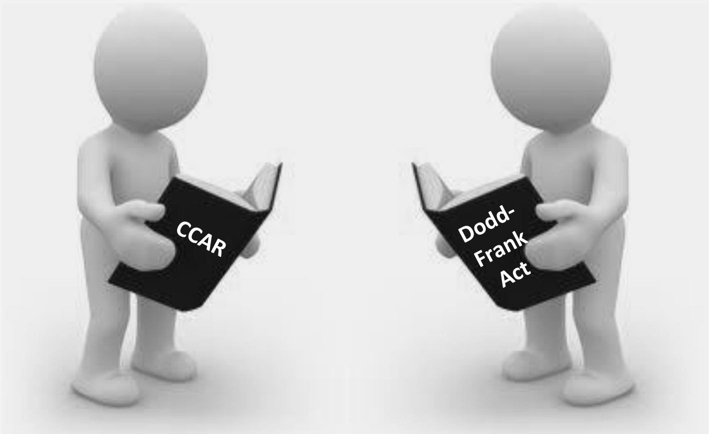


Figure 10 (right) illustrates the percentage of total loss rates in the supervisory stress scenarios:

- Results differ substantially across the 19 BHCs
- Differences reflect differences in portfolio composition and business focus
  - Some loan categories tend to have higher loss rates than others
  - Some business lines generate higher or lower amounts of revenue
- Differences also reflect variation in risk characteristics for the same type of activity
  - Portfolio composition matters –customer risk characteristics, loan terms, loan structure
  - This information collected systematically for the 19 BHCs on regulatory reports

CCAR & Dodd-Frank Act

- The CCAR capital plans complement Dodd-Frank Act in two ways
  1. The capital planning requirements are consistent with the Federal Reserve's obligations to impose enhanced capital and risk-management standards on large financial firms under the Dodd-Frank Act
  2. Dodd-Frank Act mandates that the Federal Reserve conduct annual stress tests on all BHC’s with $50 billion or more in assets to determine whether they have the capital needed to absorb losses in baseline, adverse, and severely adverse economic conditions
- These tests will be integrated into the ongoing assessments of BHC capital required by the capital plans rule
- As set forth in the law, the Federal Reserve will be implementing the specific stress testing requirements of Dodd-Frank Act
- The Federal Reserve expects that the stress tests required in Dodd-Frank will be an important component of the annual assessment of BHC capital plans



Key Considerations

A few key considerations for financial institutions are highlighted below:

What has been done to address the challenges resulting from the requirement to use more granular data?

Does the firm have a credible plan for meeting the new regulatory capital requirements embodied in Basel III and to address the regulatory capital implications of the Dodd-Frank Act?

Are there appropriate governance procedures around data integrity and model validation?

Key Considerations

Do the numbers reported align/ reconcile? (e.g. differences between accounting and regulatory definitions)

Did the firm develop an Internal Adequacy Assessment Process (ICAAP) in order to identify all high risk areas, and set capital standards?

For stress testing models used for forecasting – were macro-level variables considered?

Sources

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