MOODY'S
ANALYTICS

CCAR UPDATE
JULY 2017

Authors

Jacob Grotta
Jacob.grotta@moodys.com

Cayetano Gea-Carrasco
cayetano.gea-carrasco@moodys.com

Anna Krayn
anna.krayn@moodys.com

David Little
david.little@moodys.com

Contact Us

Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81.3.5408.4100
clientservices.japan@moodys.com

Summary of the FRB NPR CCAR and FED G-SIB Final Proposal

On July 17th, the Federal Reserve Board (FRB) issued a notice of proposed rulemaking (NPR) for the 2016 and 2017 Comprehensive Capital and Assessment Review (CCAR) exercises.

In Moody's view, the Board's proposal would modify the adoption of specific requirements into the CCAR cycles across these areas:

Capital: Under the new proposal, the Tier 1 common capital ratio would be removed as capital metric and common equity tier 1 ratio (CET1) would be used instead. Fundamentally, the CET1 ratio will force covered banks to hold more capital than the T1 common capital ratio. In addition, the CET1 ratio should be more binding than the T1 common ratio under the severely adverse scenario due to stringent capital deductions.

Leverage: The supplementary leverage ratio (SLR) would have to be incorporated in the 2017 CCAR exercise, a one-year delay.

RWA and Risk-based Capital Calculation: The use of advanced modeling approaches for risk weighted assets (RWA) requirements would be delayed indefinitely. Instead, banks would have to continue using standardized RWA approaches for the risk-based capital calculation.

Dividends: The FED's proposal eliminates the fixed payment dividend assumption requirement for those banks more than $10bn in assets but less than $50bn for one year.

G-SIB Capital Buffers: While the proposal issues on July 17th does not mention additional capital requirements regarding for Global Systemically Important Banks (G-SIB) buffers for the 2016 CCAR cycle, the rule issued on July 20th finalized application of the buffers and quantification methodology.

Moody's also thinks that the Board's proposal is positive for the industry, especially application of standardized risk-based capital requirements and the elimination of fixed payment dividend assumptions. Application of advanced RWA approaches would have required unnecessarily complex modeling approaches for forecasting, while also likely increasing the amount of necessary resources at banks.

The introduction of the CET1 ratio as a binding metric will continue to raise quality of capital at banks. The CET1 ratio will further reduce amount of fixed charge capital instruments, such as preferred stock, in banks' funding mix thus improving their capitalization levels.

On July 20th, the Board also finalized the capital surcharge rule for G-SIBs proposal, which will require G-SIB bank holding companies to hold additional capital, reflecting their size, complexity and impact on the financial system. Up to eight US major banks will likely be denominated G-SIB and subject to additional capital requirements.

The major changes introduced by the FRB in the final G-SIB proposal will be positive for financial system stability across three main areas:

1. Adoption of an average daily FX rate calculated over a period of three years vs. year-end spot rates.
2. Re-definition of the weights for the calculation of short-term wholesale funding.
3. Elimination of relative measures when determining banks' systemic importance.

Moody's thinks that a potential addition of the G-SIB buffers to the CCAR will likely be next in the Board's agenda. However, given the phased-in G-SIB implementation approach (beginning January 1st, 2016 and fully-loaded on January 1st, 2019), it is unlikely that the G-SIB buffers would be required in the CCAR 2016.

Banks can submit their comments to the FRB NPR until September 24th.