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ALERT
KPMG LLP (U.S.)

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# Americas' FS Regulatory CoE

## Regulatory Alert #14-03:

# Federal Reserve Board Releases Results of 2014 Dodd-Frank Act Supervisory Stress Tests

On March 20, 2014, the Federal Reserve Board (Federal Reserve) released the results of the 2014 supervisory stress tests conducted by the agency for bank holding companies (BHCs) with total consolidated assets of $50 billion or more. Thirty BHCs were subjected to the supervisory stress tests, which are required by the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and are generally referred to as DFAST.

The Federal Reserve conducted its first annual stress test of the largest BHCs (assets greater than $100 billion) in 2009. The Dodd-Frank Act required the Federal Reserve to include BHCs with greater than $50 billion in assets in its annual stress test this year. “The annual stress test is one of the Federal Reserve’s most important tools to gauge the resiliency of the financial sector and to help ensure that the largest firms have strong capital positions,” Federal Reserve Governor Daniel K. Tarullo said in the press release accompanying this year's stress test results.

The Federal Reserve’s 2014 DFAST report discloses the results of the supervisory stress tests conducted under the adverse and severely adverse scenarios (hypothetical, stressful macroeconomic and financial market scenarios) developed by the Federal Reserve. Broadly, the agency states the results indicate “the largest banking institutions in the United States are collectively better positioned to continue to lend to households and businesses and to meet their financial commitments in an extremely severe economic downturn than they were five years ago.” All but one of the BHCs were found to have capital in excess of the minimum capital ratios under the two scenarios (which reflect a phase-in of the Basel III capital ratios). The one firm failed to meet one minimum risk-based capital ratio under the severely adverse scenario. However, there are no penalties under DFAST directly associated with failure to meet the minimum capital ratios.


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The release of the 2014 DFAST results will be followed on March 26 by the release of results from the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR), which, among other things, incorporates the DFAST supervisory stress tests. In CCAR, the Federal Reserve evaluates the capital planning processes and capital adequacy of the BHCs with total consolidated assets of $50 billion or more, including the firms' proposed capital actions such as dividend payments and share buybacks and issuances. The Federal Reserve considers both qualitative and quantitative factors, including the firm's capital ratios under severe economic and financial market stress. If the Federal Reserve objects to a capital plan submitted under CCAR, the institution may only make capital distributions with prior written approval. The Federal Reserve may object to a capital plan for qualitative reasons even if the BHC meets all capital ratio expectations.

For more information on DFAST and CCAR, please refer to Regulatory Practice Letter 13-24, which is available by clicking on the Regulatory Practice Letter link to the right of this Alert.

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