The Federal Reserve on Friday announced it has completed the Comprehensive Capital Analysis and Review (CCAR), its cross-institution study of the capital plans of the 19 largest U.S. bank holding companies.

As a result of the CCAR, some firms are expected to increase or restart dividend payments, buy back shares, or repay government capital. The Federal Reserve on Friday will discuss the reviews and its decisions with firms that requested a capital action. All 19 firms will receive more detailed assessments of their capital planning processes next month.

In February 2009, the Federal Reserve advised bank holding companies that safety and soundness considerations required that dividends be substantially reduced or eliminated. Since that time, the Federal Reserve has indicated that increased capital distributions would generally not be considered prudent in the absence of a well-developed capital plan and a capital position that would remain strong even under adverse conditions.

The Federal Reserve's actions on capital distributions come after significant improvement in both economic conditions and the capital positions of financial institutions. From the end of 2008 through 2010, common equity increased by more than $300 billion at the 19 largest U.S. bank holding companies. Moreover, conclusion of the Basel III agreement to increase capital requirements and passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act have substantially clarified the regulatory environment in which these firms will be operating. The return of capital to shareholders under appropriate conditions is a step in the process of improvement in the financial sector and will help to promote banks' long-term access to capital. Such access will support lending to consumers and businesses. The capital plan reviews foster appropriate capital distributions in a measured fashion while still helping to ensure continued increases in firms' capital bases.

These supervisory reviews by the Federal Reserve come in the context of a significant change in supervisors' expectations for firms' substantive capital policies and capital planning processes. Among other things:

- Firms are expected to demonstrate their ability to remain viable financial intermediaries as they make the planned capital distributions, even under stressed conditions;
- Firms are expected to continue to increase their capital base;
- In 2011, firms generally are expected to limit dividends to 30 percent or less of anticipated earnings;
- Planned share repurchases will be reviewed if there are material adverse deviations from the revenue and loss assumptions in a firm's capital plan such that capital is not increasing as anticipated; and
• In the event of a sharp deterioration in economic conditions that could have negative implications for safety and soundness, the Federal Reserve may require modification of previously submitted capital plans.

The CCAR involves a forward-looking, detailed evaluation of capital planning and stress scenario analysis at the 19 large bank holding companies. Although it was not standardized to the degree the Supervisory Capital Assessment Program (SCAP) was in early 2009, it builds on the experience gained during that exercise. In the CCAR, the Federal Reserve assessed the firm's ability, after taking into account the proposed capital actions, to maintain sufficient capital levels to continue lending in stressed economic environments, including under an adverse scenario specified by the Federal Reserve. The adverse scenario was intended to represent developments in a typical recession, with a decline in economic growth, a rise in unemployment, and a sharp drop in risky asset prices (for details, please see Comprehensive Capital Analysis and Review: Objectives and Overview, attached). Federal Reserve supervisors carefully analyzed and adjusted as appropriate projections of stressed revenues and losses provided by the firms in the CCAR.

It is important to note that there are a number of reasons why firms participating in the CCAR may not be making capital distributions this quarter. For example, a firm may not have requested approval of any such action, Federal Reserve supervisors may have believed a requested distribution was too high at this time and could weaken the firm's ability to weather adverse economic conditions, or supervisors may not have been comfortable with the capital planning process underlying the request. Firms may resubmit capital proposals each quarter, with their prospects for an answer of no objection dependent on their responses to any concerns raised during the CCAR.

*Comprehensive Capital Analysis and Review: Objectives and Overview (287 KB PDF)*