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Press Release

TCH Files Comment Letter on Proposed Amendments to the Capital Plan and Stress Test Rules

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Washington, DC – August 11, 2014 – Today, The Clearing House Association (TCH) submitted a comment letter to the Federal Reserve, Comptroller of the Currency, and the Federal Deposit Insurance Corporation expressing general support for the agencies' proposed rules regarding amendments to the capital plan and stress test rules. The letter reiterates TCH's continued support for strong capital planning, and welcomes the agencies' revisions to important aspects of the capital plan and stress test rules in a manner that resolves several areas of on-going industry concern. Most notably, TCH commended the proposed rules' three-month shift forward in the start date of the annual capital plan and supervisory and company-run stress test cycles to avoid overlap with the year-end process of closing the books, and the carve out from distributions requiring Federal Reserve approval for new issuances of accretive capital instruments as proposed.

"TCH continues to support credible and robust stress tests which can be invaluable tools for effective capital planning and serve to enhance the stability of the financial system as a whole," said David Wagner, Executive Managing Director and Head of Finance Affairs for The Clearing House Association. "TCH also believes that our recommended enhancements and suggestions would further advance these objectives."

The proposed rules would prevent a Bank Holding Company (BHC) from making capital distributions in a given quarter to the extent that it does not execute capital issuances for that same quarter reflected in its capital plan. TCH urges the Federal Reserve to abandon altogether this proposed mechanical approach of tying capital distributions to executed capital issuances on a quarterly basis, or at most, adopt an alternative requirement that would allow a BHC to make planned distributions in a given quarter for so long as it has completed capital issuances totaling at least the amount necessary to maintain (x) the required Tier 1 Common 5% ratio (unless the agencies adopt TCH's alternative recommendation to eliminate the Tier 1 Common 5% ratio requirement altogether) and (y) remain above the applicable minimum regulatory capital ratios under CCAR's severely adverse scenario, taking into account the planned distribution on a pro forma basis.

Further, TCH does not believe that the NPR commentary's expectation that the bank-designed stress scenario result in an impact to projected pre-tax net income that is "at least as severe as" the results of the company-run stress test under the Federal Reserve's severely adverse scenario contributes to robust stress scenario development, and therefore should be eliminated from the commentary to the final rules.

While TCH generally supports the Federal Reserve's proposed timeline modifications to the capital plan and stress test cycles, deadlines and planning horizons to amend the cycle beginning on October 1, 2015 to instead begin on January 1, 2016, TCH urges the agencies to adopt these timing modifications generally via an interim final rule for the upcoming cycle beginning October 1, 2014. However, additional time to implement other proposed changes (e.g., any final requirements for the BHC stress scenario and quarterly distribution management) with the requisite level of control and governance would be required; accordingly, TCH requests that the Federal Reserve delay their applicability until at least the capital plan and stress test cycle proposed to begin on January 1, 2016.

Finally, in order to give banks the appropriate time to tailor their respective scenarios and thereby improve overall quality, TCH urges the agencies to release all macroeconomic stress scenarios by January 1 and the description of the global market shock component and any additional components or scenarios by January 15.
TCH also addresses several other issues raised in the proposed rules in detail.

About The Clearing House Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing – through regulatory comment letters, amicus briefs and white papers – the interests of its owner banks on a variety of important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily which represents nearly half of the automated clearing-house, funds transfer, and check-image payments made in the United States. See The Clearing House's web page at www.theclearinghouse.org.