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Federal Reserve Releases Results of Stress Tests and Large Bank Holding Companies Follow Up with Their Stress Capital Buffer Requirements



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On June 23, the Federal Reserve Board [issued](#) the aggregate and individual results of the supervisory stress test (also known as the Dodd-Frank Act Stress Test or DFAST, as these tests are required by [Section 165](#) of the Dodd-Frank Act), which assesses whether banks are sufficiently capitalized to absorb losses during a severe recession.

The Federal Reserve concluded that the 34 large banks that participated in the 2022 stress tests “have sufficient capital to absorb more than \$600 billion in losses and continue lending to households and businesses under stressful conditions. In large part, this is due to the substantial buildup of capital since the 2007–09 financial crisis.”

Following the DFAST results last week, many banks released their stress capital buffer (“SCB”) requirements under the Comprehensive Capital Analysis and Review (“CCAR”) on June 27 in various securities filings. The Federal Reserve is likely to publish all applicable banking organizations’ SCBs in August. The SCB is driven by the DFAST results and is calculated by adding the maximum decline in each banking organization’s common equity tier 1 (“CET1”) ratio under the DFAST’s severely adverse scenario plus four quarters of planned dividends. The minimum SCB is 2.5%. This is added to the 4.5% capital regulation minimum and any G-SIB surcharge or countercyclical capital buffer in place to show the total CET1 required.

Three banking organizations – [Bank of America](#) (SCB increase from 2.5% to approximately 3.5%), [Citigroup](#) (SCB increase from 3.0% to 4.0%), and [JPMorgan Chase](#) (SCB increase from 3.2% to 4.0%) – have announced the need to increase their stress capital buffers after the stress test results. Other institutions that don’t

have the need to increase their SCB could be likely to increase dividends or other capital distributions.
