London&Capital

INVESTMENT DESK

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US BANK STRESS TESTS

Highlighting a strong and resilient banking sector fortified by regulators to withstand a once in a lifetime economic shock.

Fed Vice Chair echoes our sentiment, "The banking system has been a source of strength during this crisis and the results of our sensitivity analyses show that our banks can remain strong in the face of even the harshest shocks".

The Fed has, as expected and in line with its intention of maintaining a strong and thriving financial sector, taken certain steps to preserve capital and fortify balance sheets:

- Suspended share buybacks in Q3
- Capped dividend payments
- Allowed dividends based on recent income, but no greater than the average paid in 2019
- Asked for all banks to re-submit capital plans later this year in light of the remarkable economic dislocation and this practice may well continue for some time ahead – and should be viewed as a positive step highlighting the remarkable transparency
- Maintained AT1 and T2 debt dividend payments
- Did not object to the capital plans of the foreign banks evaluated

Key highlights

Main regulatory ratios remained well above minimum ratios even with the severe adverse scenario (applying the 'W'-shaped double-dipped recovery) – see below.

This applied not just to the main US banks but also the major European entities with US operations.

Suspending share buybacks does preserve capital and is a positive step for debt holders.

As an example, JP Morgan share buybacks amounted to $28 bn with dividend payments of just over $12 bn last year.