Capital Reporting to Capital Management - Post Crisis

Jeff Colson
Head of Capital Management
Wells Fargo & Co.

October 11, 2018
Pre-Crisis: Capital “Reporting”

One View of Net Income

One View of Balance Sheet

Limited-to-no Risk-based Principles

“Capital Reporting”

“Closing the Books” and Light touch Forecasting and/or Ad Hoc

More likely to spend more time on Actuals vs. Forecast. Accounting based discipline

Public Disclosure
- Limited to reporting of quarterly capital ratios in 10-Q/K
- No stress testing disclosure (CCAR or DFAST)

Illustrative purposes only
Regulatory guidance, rules and laws, together with industry participants, have helped move capital from a reporting function to a financial risk management discipline; strengthening the health of the industry.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>SCAP – One Stress Test. Capital Raising</td>
</tr>
<tr>
<td>2010</td>
<td>Dodd-Frank becomes law</td>
</tr>
<tr>
<td>2013</td>
<td>FRB Issues Range of Practice (ROPE) - 7 Principles of Effective Capital Planning</td>
</tr>
<tr>
<td>2016</td>
<td>SR 15-18 Issued: Formalized principles and years of learnings. Formed better “playbook” for routine capital expectation and examination. Helped push beyond just stress testing</td>
</tr>
<tr>
<td>2017</td>
<td>CFO Attestation. Qualitative Review removed for smaller firms</td>
</tr>
<tr>
<td>2018</td>
<td>Stressed capital buffer (SCB) NPR. Further move toward ongoing supervision vs annual exam</td>
</tr>
<tr>
<td>2019+</td>
<td>Cohesive &amp; comprehensive integrated framework emerging</td>
</tr>
</tbody>
</table>

Illustrative purposes only
Post-Crisis: Capital Management as Core Component of Financial Risk Management

Financial Risk Management Discipline

- Strategic & Financial Planning
- Risk Appetite
- Shareholder Return Targets

= (Does it all fit) Capital Adequacy

YES or NO?

Feedback loop is critical
### Comprehensive Framework Emerging

- **CCAR ≠ Annual Stress Test**
- **CCAR + SR 15-18 ⇒ routine Capital Adequacy** focused on base & stress as complimentary. Link to risk management
- **Annual “ask” for capital actions with Board ⇒ quarterly ask or confirmation**
- **Basel III proposals + SCB ⇒ combined comprehensive risk-based framework** where stress capital becomes real world day-to-day capital
- **Multiple disparate measures ⇒ Simplified**
- **Annual check-up/exam ⇒ Ongoing supervision** aligned with ongoing internal capital routines

### Financial Risk Management

- **Capital Management ⇒ 1 component of Financial Risk Management** (not self-standing)
- **Baseline capital and Risk Appetite connections:**
  - Capital should be considered in setting of Risk Appetite key metrics (but not necessarily an allocation process)
  - Robust early-warning monitoring of baseline Risk Appetite linked to Capital Management
- **Stressed capital ⇒ Support and test Risk Appetite boundaries**
- **Stressed capital ⇒ Key support for Risk Capacity** (but 1 of many considerations)
- **Capital Allocations ⇒ to include consideration of stress capital**
- **Multiple constraints should exist, but in cohesive framework where linked**