BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: October 17, 2025

To: Board of Governors

From: Staff[1]

Subject: Proposals to enhance the transparency and public accountability of the Board's stress testing framework

**ACTIONS REQUESTED**: Approval of (1) a notice of proposed rulemaking to (i) publish the supervisory stress test models for public comment; (ii) publish amendments to the Policy Statement on the Scenario Design Framework for Stress Testing, including the implementation of guides for additional scenario variables, for public comment; and (iii) publish amendments to the Stress Testing Policy Statement for public comment ((i)-(iii), the "transparency and public accountability notice"); and (2) a notice to publish the 2026 supervisory stress test scenarios, and models used for supervisory stress test scenario generation, for public comment (the "2026 scenarios notice") (collectively, the "proposal"). The transparency and public accountability notice would also codify an enhanced process for publishing the stress test models, for seeking public comment on material changes to the stress test models, and for publishing and seeking public comment on the annual stress test scenarios. Additionally, the transparency and public accountability notice would propose targeted changes to the FR Y-14A/M/Q reports to remove data items no longer needed to conduct the supervisory stress test, as well as to collect additional data that would support the stress test models and improve risk capture. Staff also request authority to make technical, non-substantive changes to the attached materials prior to publication.

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**EXECUTIVE SUMMARY:**

- The proposal is intended to enhance the transparency and public accountability of the Board's stress test framework, consistent with the December 2024 Board press release.[2]

- The transparency and public accountability notice would disclose and seek public comment on the models the Board plans to use to conduct the 2026 supervisory stress test. It would also disclose and seek public comment on proposed changes to these models relative to the 2025 supervisory stress test, including proposed changes to address the sensitivity of pre-provision net revenue projections to recent firm performance. See Appendix A for a summary of the proposed model changes and their estimated capital impact.

    - The model documentation would generally include the equations, variables, and coefficients for each model; assumptions and limitations of each model; rationale for modeling decisions; and discussions of alternative models or modeling choices.

- The transparency and public accountability notice would propose to codify an enhanced disclosure process in the Board's regulations under which the Board would commit to maintaining transparency and facilitating public participation with respect to the stress test models and scenarios.

    - The proposed enhanced disclosure process would require the Board to annually disclose the model documentation and scenarios and invite public comment on the scenarios and any material changes to the models before such changes are implemented in the supervisory stress test.

    - To accommodate the proposed public comment process on the stress test scenarios, the proposal would shift the jump-off date of the stress test from December 31 to September 30.

    - The transparency and public accountability notice would invite public comment on proposed amendments to the Board's Stress Testing Policy Statement in accordance with the proposed enhanced disclosure process.

- The transparency and public accountability notice would invite public comment on proposed amendments to the Board's Policy Statement on the Scenario Design Framework for Stress Testing (Scenario Design Policy Statement) that include (1) proposed guides for seven additional domestic scenario variables (see Appendix C for a summary of the proposed

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[2] *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm. *See also* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250205a.htm.

guides),[3] and (2) a detailed description of the approaches for producing the scenario variable paths. These amendments aim to balance the transparency and predictability of the annual stress test scenario design process by having a consistent process for all scenario variables.

- The transparency and public accountability notice would describe changes to simplify the global market shock scenario and implement shorter liquidity horizons that better align with the nature of an instantaneous shock in the proposed amendments to the Scenario Design Policy Statement. The transparency and public accountability notice would also propose to revise the Board's regulations to expand the as-of date range of the global market shock. This expansion aims to increase the global market shock's ability to capture a spectrum of market risks across different time periods, thereby enhancing the overall risk assessment capabilities of the stress test.

- The transparency and public accountability notice would modify certain elements of the FR Y-14A/Q/M reporting forms to remove several data items and supporting documentation requirements that are no longer needed to conduct the supervisory stress test and to collect additional data to improve risk capture. The removal of the supporting documentation requirement is expected to reduce submitted documentation by over 10,000 pages, on average, for each firm subject to the requirement.

- The 2026 scenarios notice would invite public comment on descriptions of the proposed 2026 stress test scenarios. It would also disclose and seek public comment on the macroeconomic model used to provide the paths of variables not specified with guides, as well as the modeling approaches used to derive shock values in the global market shock. This notice would specify the paths of the scenario variables, including the values for the global market shock variables, consistent with the Board's disclosures of the stress test scenarios from previous stress test cycles.

- In aggregate, the stress test model and scenario changes are not expected to materially change capital requirements for firms subject to the supervisory stress test.

**BACKGROUND:**

Stress testing is a core element of the Board's regulatory framework and supervisory program for large firms. The stress test enables the Board to assess whether large bank holding

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[3] The Board currently provides guides for the paths of the unemployment rate and for the ratio of housing prices to disposable income. The proposal would include guides for seven additional domestic scenario variables: BBB spread, equity prices, commercial real estate prices, mortgage spreads, 5-year Treasury yield, 10-year Treasury yield, and the Chicago Board Options Exchange's Volatility Index (VIX). The Board is proposing to use guides or use a model in the process for setting all scenario variables, including international variables, for completeness and consistency.

companies, savings and loan holding companies, U.S. intermediate holding companies of foreign banking organizations, and nonbank financial companies supervised by the Board (collectively, firms) have sufficient capital to absorb potential losses and continue lending under a set of hypothetical severely adverse conditions.[4] Since 2009, the common equity capital ratios of firms subject to the test have more than doubled, with common equity capital of such firms increasing by over $1 trillion.[5]

Since 2020, the supervisory stress test results have also informed a firm's stress capital buffer requirement.[6] Greater transparency would allow firms to better understand the capital requirements associated with investment and expansion of different business lines and would facilitate more effective long-term capital planning. This, in turn, could enhance firms' ability to supply credit to households and businesses, ultimately supporting economic growth and financial stability.

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[4] *See* 12 U.S.C. § 5365(i)(1). Section 401(e) of the Economic Growth, Regulatory Relief and Consumer Protection Act requires the Board to conduct periodic stress tests for bank holding companies with total consolidated assets between $100 billion and $250 billion. 12 U.S.C. § 5365 note (Supervisory Stress Test).

[5] Based on FR Y-9C (Consolidated Financial Statements for Holding Companies) filings.

[6] In 2020, the Board finalized a rule to integrate supervisory stress test results into the capital framework, through the stress capital buffer requirement. *See* 85 FR 15576 (March 18, 2020). The stress capital buffer requirement is calculated as the difference between a firm's starting and lowest projected common equity tier 1 capital ratio under the severely adverse scenario in the supervisory stress test plus four quarters of planned common stock dividends, expressed as a percentage of risk-weighted assets. *See* 12 CFR 225.8(f); 12 CFR 238.170(f). The stress capital buffer requirement framework generally applies to firms with $100 billion or more in total consolidated assets.

*Stress Test Models*

The Board uses models to generate the results of the supervisory stress test. The Board has previously disclosed certain information regarding these models and its model development process, most notably in the Stress Testing Policy Statement,[7] the Enhanced Disclosure of the Models Used in the Federal Reserve's Supervisory Stress Test (Enhanced Model Disclosure),[8] and the related annual model methodology document. The Stress Testing Policy Statement describes the Board's policies and procedures that guide the development, implementation, and validation of the models. The Enhanced Model Disclosure supplemented prior public descriptions of the models by providing some information about their structure and by including a list of key variables that influence the results of each model.[9] However, more detailed information would improve the ability of firms to accurately assess how changes in their business activities might impact their supervisory stress test results and, relatedly, their stress capital buffer requirements and overall capital requirements.

*Stress Test Scenarios*

The Board conducts the supervisory stress test using the severely adverse scenario. The severely adverse scenario describes a hypothetical set of conditions designed to assess the strength and resilience of firms in a severely adverse economic environment and includes 28

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[7] 12 CFR Part 252, Appendix B.

[8] *See* 84 FR 6784 (February 28, 2019).

[9] *E.g.*, 2025 Supervisory Stress Test Methodology, *available at* https://www.federalreserve.gov/publications/2025-june-supervisory-stress-test-methodology-introduction.htm.

variables that are disclosed by the Board each year prior to the supervisory stress test. These variables serve as an input to the calculation of supervisory stress test results for all firms.

For a subset of firms, the severely adverse scenario also includes two additional components: the global market shock component and the largest counterparty default component.[10] The global market shock component applies to firms with a significant amount of trading activity. The global market shock is a set of hypothetical shocks to a large set of risk factors reflecting general market distress and heightened uncertainty and is used to project mark-to-market losses on market risk exposures, which feed into a covered firm's stress test results. The global market shock component is applied to asset positions held by the firms on a given as-of date. Under the Board's current regulations, the as-of date of the global market shock component must occur between October 1 of the previous calendar year and March 1 of the calendar year in which the stress test is performed.[11] In addition, for certain large and highly interconnected firms, the same global market shock component is applied to counterparty exposures under the largest counterparty default component.[12] The largest counterparty default component is intended to assess the potential losses and capital impact associated with the default of each covered firm's largest counterparty, and the as-of date aligns with that of the global market shock component.

The Board has enhanced the transparency of its scenario design process over time. The Board issued the Scenario Design Policy Statement in 2013 and finalized the current version in

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[10] *See* 12 CFR 238.143(b)(2)(i) and 252.54(b)(2)(i).

[11] 12 CFR 238.143(b)(2)(i); 252.14(b)(2)(i); 252.54(b)(2)(i).

[12] The largest counterparty default component generally applies to all firms subject to the global market shock component, as well as firms with substantial processing and custodial operations.

2019.[13] The Scenario Design Policy Statement sets guides for the paths of the unemployment rate and for the ratio of housing prices to disposable income. However, the description of the process for determining the paths of the other variables is currently limited. The Board could make the design of scenarios more transparent and predictable by providing additional guides for certain macroeconomic variables, posting comprehensive descriptions of models used in the design of the macroeconomic scenario and global market shock component, and disclosing additional detailed information on the methodology used to create the global market shock component of the severely adverse scenario.

**DISCUSSION:**

**A. Enhanced Transparency of the Supervisory Stress Test**

Consistent with the Board's December 2024 press release, the transparency and public accountability notice would publish for public comment comprehensive documentation on the Board's stress test models.[14] This comprehensive documentation would include the equations, variables, and coefficients used in each model; assumptions and limitations of each model; rationale for modeling decisions; and discussions of alternative models. The transparency and public accountability notice would also codify an enhanced disclosure process under which the Board would annually publish updated comprehensive documentation on the stress test models,

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[13] *See* 78 FR 71435 (2013 version); 84 FR 6651 (2019 amendments); 12 CFR Part 252, Appendix A.

[14] The comprehensive model documentation would be published on the Board's website; the transparency and public accountability notice would provide a link and request public comment on the documentation.

invite public comment on any material changes that the Board seeks to make to those models, and annually publish the stress test scenarios for public comment.

*Stress Test Model Changes*

Each year, the Board refines and enhances its stress test models to reflect advances in modeling techniques, respond to model validation findings, incorporate richer and more detailed data, or identify models with improved performance. These changes ensure that the models are able to remain dynamic (i.e., can be enhanced to capture emerging risks), produce reasonable results, and can identify salient risks at firms. The Board currently maintains a robust internal process for assessing, validating, and implementing model changes. For additional transparency and public accountability, the proposal would publish descriptions of, and invite public comment on, several proposed changes to the models (relative to the models used in the 2025 cycle) for implementation in future stress tests.[15] These proposed changes are intended to simplify and improve the models. A summary of these proposed changes is included in Appendix A.

*Process for Future Model Updates and Stress Test Results*

As part of the transparency and public accountability notice, the Board would commit to publish for public comment any material model changes before implementing them in a supervisory stress test.[16] Seeking public comment before implementing material model changes

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[15] These proposed changes would be summarized in the transparency and public accountability notice; detailed discussions of these proposed changes would be published on the Board's website along with the comprehensive model documentation.

[16] The proposal would request public comment on the following definition of materiality: a "material model change" means a model change that could have, in the Board's estimation, an impact on the post-stress CET1 regulatory capital ratio of any firm, or on the average post-stress CET1 capital ratios of all firms required to participate in the upcoming stress test cycle, based on

would facilitate public participation with respect to the models and help to ensure that any material model changes are sound and effective for use in the supervisory stress test. In addition, as part of the annual publication of the comprehensive stress test model documentation, the Board would identify any non-material changes made to the models. Taken together, the policies for model changes would help to ensure that the models maintain an optimal level of robustness and stability, while ensuring material changes are transparent and benefit from public feedback before they are implemented.

The transparency and public accountability notice would also seek public comment on revisions to the Stress Testing Policy Statement in accordance with the proposed enhanced disclosure process. For example, it would propose to revise the Stress Testing Policy Statement to facilitate disclosing additional information directly to a firm about that firm's own stress test results.

Publishing comprehensive documentation on the stress test models for public comment, as well as committing to future enhanced disclosures, has costs and benefits. For example, it could contribute to a model monoculture or delay material model changes while risks build up in areas that are treated relatively benignly in the stress test. Yet, disclosure under the proposal would also have meaningful benefits. First, the increase in transparency would increase public accountability and instill confidence in the fairness of the supervisory stress tests. Second, the

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the prior year's severely adverse scenario and prior year's input data, equal to (i) a change of 20 basis points or more in the projected CET1 ratio of any such firm; or (ii) a change of 10 basis points or more in the average of the absolute change to the values of the projected CET1 ratios of such firms. The proposal would also solicit public comment on alternative thresholds for, and definitions of, materiality. The proposal would also define a model change to mean "the introduction of a new model or a conceptual change to an existing model."

disclosure process would create a new mechanism for obtaining feedback from the public, including academics, financial analysts, and firms, on the design and specifications of the models, which should lead to model improvements. Third, a firm would have a better sense of how its risk profile would factor into its stress capital buffer requirement, which would reduce the likelihood of unanticipated stress test results and allow for better capital and business planning by firms. Finally, the public disclosure of additional information about supervisory stress tests should strengthen market discipline, because investors, counterparties, and rating agencies would be able to better assess a firm's risk profile.[17]

**B. Revisions to Scenario Design Policy Statement**

Under the transparency and public accountability notice, the Board would also seek public comment on revisions to the Scenario Design Policy Statement that are intended to increase the predictability and transparency of the supervisory stress test.

*Future Scenarios Disclosures*

The revised Scenario Design Policy Statement would include a description of an annual process that the Board would undertake to seek feedback on the supervisory stress test scenarios prior to their finalization. This process would look similar to the process the Board would use to solicit public comment on the 2026 scenarios. Under the revised process, the Board expects to release scenarios for public comment on or around October 15 each year for at least a 30-day period. The timing of the release and duration of the public comment period will allow the

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[17] *See, e.g.*, Gambetta, N., García-Benau, M.A. and Zorio-Grima, A., 2019. Stress test impact and bank risk profile: Evidence from macro stress testing in Europe. International Review of Economics & Finance, 61, pp. 347–354; and Goldstein, I. and Leitner, Y., 2022. Stress test disclosure: theory, practice, and new perspectives. Chapter 11 of Handbook of Financial Stress Testing.

Board sufficient time to receive and respond to public comments and then finalize each year's scenarios by February 15 in each annual stress test cycle (consistent with current practice). The transparency and public accountability notice would also propose to codify this annual process in the Board's regulations. To accommodate the public comment process, the proposal would also shift the jump-off date of the stress test from December 31 to September 30.[18]

*Variable Guides and Model Disclosures*

The revised Scenario Design Policy Statement would include scenario guides for an expanded set of financial market variables in the macroeconomic scenario, and enhancements to the existing unemployment rate and housing price guides. The new enhanced set of guides would describe the process used to set the paths of the variables throughout the duration of the stress test, including the peak or trough values, the timing of these values, and the trajectory between the starting values and those points. The revised Scenario Design Policy Statement would also contain additional information about the framework and model components used to create the global market shock, including a description of the logic underlying the severity of the shock, as well as a description of the models and processes used to generate the shock.

The transparency and public accountability notice would include details on a macroeconomic model used to formulate the paths of the variables that are not determined by a guide for a given annual scenario, including GDP, inflation, and the 3-month Treasury bill rate. This model was developed to meet the needs of the stress testing program for the paths of

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[18] The change to the jump-off date would also help to ensure that economic data and firm's balance sheets would be set prior to the release of the proposed scenarios. The proposal would also implement technical changes to align the dividend add-on component of the stress capital buffer requirement with the proposed jump-off date.

scenario variables to be internally consistent and to be suitable for public release and comment. The transparency and public accountability notice would specify that the macroeconomic model is used solely for supervisory stress testing purposes and that the output is not a forecast of the Board. As a result of these revisions, the severely adverse scenario would be more transparent and predictable across supervisory stress tests.

*Additional Global Market Shock Revisions*

Under the proposal, the as-of date window for the global market shock would widen. Currently, the as-of date window runs from October 1 of the year preceding the stress test to March 1 of the year of the stress test. Under the proposal, the as-of date window would run from the October 1 that occurs two years preceding the stress test to the October 1 the occurs in the year preceding the stress test.[19] This new range would allow the global market shock to capture a range of market risks across different time periods, thereby improving the risk capture of the global market shock.

The transparency and public accountability notice would seek feedback on the Board's intention to streamline the global market shock methodology by reducing the number of modeled risk factors. Currently, the global market shock includes more than 20,000 risk factors that reflect sudden market distress and heightened uncertainty. This approach would reduce the disclosed number of modeled risk factors to approximately 2,300 based on their relevance for

[19] For example, under the proposal, the global market shock as-of date could fall on any date between October 1, 2024, through September 30, 2025, for the 2026 stress test.

developing a global market shock scenario narrative, the materiality of the risk factors, data quality, and consistency across asset classes.[20]

Additionally, the transparency and public accountability notice would seek feedback on a proposal to reduce the length of liquidity horizons in the global market shock. A liquidity horizon is the time assumed to be required to exit or hedge a risk position without materially affecting market prices in stressed market conditions. Global market shock losses are recognized in the first quarter of the stress test projection horizon, which reflects the fact that market dislocations that would affect mark-to-market positions can happen rapidly and unpredictably, at any time, under stressed conditions. However, the current length of liquidity horizons ranges from 3 months to 12 months, which may not conceptually align with an "instantaneous" shock and can lead to potential incoherence between the macroeconomic scenario, which is recognized over a nine-quarter projection horizon, and the global market shock, which is recognized in the first quarter of the projection horizon. The proposal would seek comment on a proposal to reduce the liquidity horizons in the global market shock to 1 month for liquid asset classes and to 3 months for illiquid asset classes.

### C. 2026 Supervisory Stress Test Scenarios

Under the 2026 scenarios notice, the Board would seek public comment on the scenarios used for the 2026 supervisory stress test.

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[20] To facilitate this transition, the values for the remaining shocks would still be provided as part of the 2026 supervisory stress test scenarios notice. Providing the values for all the shocks for at least the 2026 scenarios may mitigate the impact of firms having to change their operational systems to process the global market shock values.

The 2026 proposed severely adverse macroeconomic scenario is characterized by a hypothetical global recession triggered by an abrupt decline in risk appetite that causes substantial declines in the prices of risky assets, declines in risk-free interest rates, and high levels of volatility. Equity prices fall more than 50 percent in the first three quarters of the scenario, while the VIX spikes and reaches a peak of above 70 percent in the second quarter of the scenario.[21] The increase in market volatility also leads to a widening in BBB corporate bond spreads to a level of 5.7 percentage points. Those disruptions depress demand for goods and services from households and prompt businesses to dramatically reduce employment and investment, conditions from which the economy and asset prices are slow to recover. The U.S. unemployment rate rises 5.5 percentage points from the scenario's currently projected starting point of 4.5 percent in the fourth quarter of 2025 to its peak of 10 percent in the third quarter of 2027. The sharp decline in economic activity leads to a collapse in real estate prices, including a 40 percent decline in commercial real estate prices and a 29 percent decline in house prices.[22]

The international portion of the scenario features recessions in three countries or country blocs and a sharp slowdown in developing Asia, followed by declines in inflation, with all countries or country blocs experiencing deflation. The value of the U.S. dollar appreciates against all countries and country blocs' currencies, except for the Japanese yen. The 2026

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[21] Equity prices are determined by a formula that adjusts to the change in equity prices over the past 12 months. The actual change in equity prices in the scenario will be determined by the level of the market on the data jump-off date for the scenario.

[22] As with equity prices, the final change in house prices in the scenario is determined by a formula that uses the most up-to-date information at scenario publication. Therefore, this aspect of the scenario could change based on published data for house prices and disposable personal income in coming months.

macroeconomic scenario was constructed using the domestic and international guides proposed in the revised Scenario Design Policy Statement, including those for U.S. unemployment, real estate prices, and core financial market variables, as well as the new model for the other variables. The proposed 2026 scenario is also consistent with the current Scenario Design Policy Statement. The 2026 global market shock is characterized by heightened market expectations of persistently high inflation and higher commodity prices, which could lead to a global recession

The scenario has certain elements in common with prior episodes of market reactions to periods of expected high inflation combined with low growth, such as the oil crisis of the 1970s. That period was also characterized by commodity price increases.

In the scenario, both short-term and long-term Treasury rates rise sharply, driven by higher inflation expectations. Heightened inflation expectations drive commodity prices upward. The expected fall in economic activity leads to notable equity price declines across global markets. Concerns about corporate credit defaults in light of the economic slowdown leads to wider credit spreads. The U.S. dollar strengthens, exhibiting large gains against the Euro and moderate gains against the Japanese yen driven by higher yields in the U.S.

These scenarios are developed solely for supervisory stress testing purposes and do not represent economic forecasts by the Board.

**D. FR Y-14 Reporting Requirements**

The proposal would seek to make changes to the FR Y-14A/Q/M reports to remove items and documentation requirements that are no longer needed to conduct the supervisory stress test. The proposal would also seek to collect additional data that would support the proposed supervisory models and that would improve risk capture. Appendix B contains a summary of the proposed changes to the data collection. The removal of the supporting documentation

requirement is expected to reduce submitted documentation by over 10,000 pages, on average, for each firm subject to the requirement.

### E. Analysis of Proposed Model and Scenario Changes

In aggregate, the stress test model and scenario changes are not expected to materially change capital requirements for firms subject to the supervisory stress test, across various stress scenarios and jump-off conditions at the start of the test. For instance, relative to the results from the 2024 and 2025 stress testing cycles, staff analysis indicates that the proposed changes could have reduced aggregate stress capital buffer requirements by approximately 23 basis points, on average (41 basis points in 2024 and 5 basis points in 2025), or approximately 2.2 percent of current required common equity tier 1 capital. The analysis estimates that the proposed model changes would reduce stress capital buffer requirements by approximately 13 basis points and that the proposed revisions to the global market shock scenario design would reduce stress capital buffer requirements by approximately 10 basis points. For U.S. GSIBs, the analysis estimates a decline of 25 basis points in stress capital buffer requirements.

Overall, the decrease in capital requirements observed across the 2024 and 2025 cycles is negligible, and the estimated impact of these changes remains highly sensitive to the stress test scenario and firm-specific data for each year. Looking ahead, while the precise impact will vary each year based on stress test scenarios and specific firm data, our analysis across a range of conditions shows that capital requirements should remain essentially unchanged.

Additional details on the proposed model and scenario changes are included in Appendix A.[23]

**RECOMMENDATIONS**:

For the reasons discussed above, staff recommend that the Board approve the attached draft notices. Staff also recommend that the Board authorize staff to make technical, non-substantive changes to the attached materials prior to publication.

[23] The table in Appendix A presents the impact of the proposal in terms of changes in the estimated capital ratio decline in the stress test, which is translated to an impact on firm's stress capital buffer requirements, accounting for the 2.5 percent floor and the dividend add-on.

## Appendix A: Proposed Model Changes and Estimated Impact

The proposal would publish for public comment several proposed changes to the models, relative to the models used in the 2025 cycle. A brief summary of these changes is included below.

- Credit Risk Models:
  - The proposal would include changes to several retail models to enhance and, in some cases, simplify them, including updates to reduce regional variation and eliminate cliff effects in projected loss rates that could unduly affect the allocation of credit.
  - The proposal would include changes to the corporate model suite, including enhanced and simplified probability of default and loss-given-default models.
  - The proposal would also make minor changes to other credit risk models.

- Securities Models:
  - The proposal would implement a new framework for calculating losses on other than temporarily impaired securities.
  - The proposal would enhance the conceptual soundness of the securities loss model by incorporating more appropriate reinvestment assumptions on different securities. For consistency, this modeling approach would be used for securities interest income.

- Market Risk Models: The proposal would simplify the GMS framework by reducing the number of shocks and reducing the liquidity horizons over which shocks are calculated. The proposal would modify the exclusion list for a firm's largest counterparty.

- Operational Risk (Ops Risk) Model: The proposal would discontinue the macroeconomic regression, which would mitigate certain assumptions regarding the timing of operational loss events. The proposal would also improve the measure of operational risk exposure.

- Pre-Provision Net Revenue (PPNR) Models: The proposal would fully replace the current suite of PPNR models. The new models would better reflect the structure of firms' assets and liabilities and would reduce the volatility of PPNR projections.

**Estimated Effect of Proposed Model Changes on Stress Test Capital Ratio Decline**

| | | Estimated Impact of Proposed Model Changes | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Current | Credit Risk | Securities | Market Risk | Ops Risk | PPNR | Proposed |
| 2025 | 1.7 | -0.5 | 0.1 | -0.1 | -0.4 | 0.8 | 1.6 |
| 2024 | 2.5 | -0.4 | 0.0 | -0.3 | -0.5 | 0.7 | 2.1 |
| Average | 2.1 | -0.4 | 0.1 | -0.2 | -0.5 | 0.7 | 1.8 |

**Note:** The table is in percentage points of risk-weighted assets. The current decline does not match the published aggregates as it includes the full phase-in of model changes for those stress test cycles. Estimates are based on a balanced sample of 30 firms subject to the 2024 stress test and expected to participate in the 2026 stress test.

**Appendix B: Summary of Proposed FR Y-14 Revisions**

- *Supporting Documentation* -- Firms are required to provide qualitative information on the methodologies used to develop their projections and any other analysis that supports their FR Y-14A submissions.
    - As the FR Y-14 has matured, much of the supporting documentation is not needed by supervisors to assess firms' submissions. To ensure that the FR Y-14A requirements capture information used by supervisors and to reduce reporting burden, the proposal would remove the supporting documentation requirements from the FR Y-14A.
    - Supervisors could still request similar information from firms through supervisory channels, as deemed appropriate and on a targeted basis, in support of the annual capital plan review.

- *Home Equity Loan-Level Data* -- The Board has identified several items on the FR Y-14M that are not needed to assess a home equity line of credit's risk characteristics or for stress test modeling. Therefore, to maintain appropriate risk coverage and reduce reporting burden, the proposal would retire approximately 20 fields from the FR Y-14M.

- *Private Equity Exposures* -- Beginning with the 2025 supervisory stress test, losses on private equity exposures are calculated using the macroeconomic scenario and not the global market shock. To capture data in a manner that aligns better with this new treatment, the proposal would include minor revisions for reporting private equity exposures and associated hedges.

- *Hedges* -- To broaden the consideration of hedges in the calculation of stress test losses, the proposal would include revisions to capture more data on various types of hedges.

- *Revenue and Loss Sharing Agreements* -- To enhance the Board's adjustment for credit card revenue and loss sharing agreements, the proposal would collect additional information associated with these agreements.

- *Other Revisions* -- The proposal would also include other minor revisions to reduce regulatory reporting burden, align with the proposal's changes to the stress test timeline, and to clarify the instructions.

## Appendix C. Summary of Guides for the Peak or Trough of Scenario Variables

| | Variable | Guide |
|---|---|---|
| **Current guides** | Unemployment | +3 p.p. to 5 p.p. to minimum 10% |
| | House Prices | The ratio of a house price index to disposable personal income (HPI-DPI) declines 25% or to Global Financial Crisis trough, whichever is lower |
| **Proposed guides** | BBB spreads | +100 bps or to a range between 500 bps and 600 bps |
| | Mortgage spreads | +70 bps to 160 bps to minimum 300 bps |
| | 5-year Treasury yield | Falls by 1.5 p.p. to 3.5 p.p., subject to a lower bound (0.3%) |
| | 10-year Treasury yield | Falls by 1.0 p.p. to 3.0 p.p., subject to a lower bound (0.5%) |
| | Equity Prices | Falls by $\begin{cases} 50\% + \min(10\%, \lvert\Delta(prior\ year)\rvert/2), if\ \Delta(prior\ year) \geq 0 \\ 50\% - \min(10\%, \lvert\Delta(prior\ year)\rvert/2), if\ \Delta(prior\ year) < 0. \end{cases}$ |
| | VIX | +10 p.p. to a minimum level in the range between 65% and 75% |
| | Commercial Real Estate (CRE) Prices | Falls 30% to 45% based on valuation pressure assessment from CRE indicators |

**Note:** In addition to the peak or trough value, scenario guides also include information on the timing of the peak or trough and the trajectory to those values.