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Proposal and Comment Information

Title: Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement, R-1866

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Please see enclosed comment on Docket R-1866.

Comments on Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement

Docket No. R-1866

I support the proposed Federal Reserve Board rule, which will enhance the stability and predictability of our financial system. The changes to the capital planning and stress capital buffer framework will provide institutions with greater certainty and enable proactive long-term planning. By smoothing year-to-year fluctuations in capital requirements, the rule will help banks avoid abrupt, reactive measures during economic shifts. The necessary 2.5 percent floor in the rule will maintain critical minimum capital levels while transitioning to a more predictable, forward-looking methodology that curbs emergency capital raises and discourages procyclical behavior. With this rule, banks and the banking system would benefit from a structured framework that tempers volatile capital swings and fortifies the resilience needed to manage regulatory challenges. Stabilizing capital mandates is helpful for preserving market confidence and preventing liquidity strains.

However, I wish to offer three suggestions for improvement of the rule, and I hope they can be taken into consideration by the Board.

Recency-Weighted Averaging for Capital Requirements

I recommend adopting a recency-weighted averaging method to improve the proposed rule by capturing rapidly shifting risk conditions more effectively. Many financial risk models already use recency weighting. For example, the RiskMetrics framework employs an exponentially weighted moving average (EWMA) to estimate asset volatility, giving recent market data greater importance. Moreover, while neither IFRS9 nor CECL mandates a specific recency weighting formula, many institutions incorporate recency weighting in their internal credit risk models to give greater emphasis to recent losses and better reflect current risk exposures.

Transitioning from the current two-year equal-weight average to a recency-weighted approach would allow capital requirements to adjust more promptly to deteriorating conditions. I propose a 60/40 ratio—assigning 60% weight to the most recent stress test result and 40% to the prior year's data. This split is justified by evidence that many risk events occur within a single fiscal cycle,

making the latest data a critical indicator of emerging risks, while still retaining sufficient historical context to dampen temporary anomalies. A 50/50 split might understate recent changes, whereas a more aggressive 70/30 division could overreact to short-term fluctuations.

While an exponential decay function—using a decay parameter (commonly lambda around 0.4) to diminish the influence of older data—may technically add nuance, that approach would add complexity. For transparency in regulatory capital planning, the 60/40 method remains the clearer, more balanced choice.

By implementing a recency-weighted averaging framework, capital requirements would adjust more swiftly to rapid shifts in risk profiles, reducing the need for disruptive emergency capital raises such as asset sales at depressed prices or abrupt dividend curtailments.

Simplified and Standardized Reporting Requirements

I recommend streamlining the FR Y-14A/Q/M reporting requirements to reduce administrative burden and enhance data quality. Currently, numerous cross-references, shifting terminology, and inconsistent templates raise the risk of errors and waste resources. For example, banks frequently reinterpret key metrics like "stress capital decline" due to varied contextual nuances—sometimes, different business units apply alternative calculation methods for the same measure, leading to discrepancies that complicate internal audits. Additionally, inconsistent formatting in data entry—such as divergent conventions for reporting loan exposures or risk adjustments—can result in misalignment between reported figures and actual risk profiles. A dedicated glossary defining terms such as "stress capital buffer requirement," "risk-weighted assets," and "dividend add-on," along with standardized reporting templates, would ensure uniformity across reports and streamline data reconciliation.

Consolidating reporting formats into a single, standardized template would simplify data processing and spare banks from repeatedly retrofitting systems to evolving regulatory language. A unified template aligning the FR Y-14A, Y-14Q, and Y-14M forms, if practicable, would capture consistent data, streamline inter-period comparisons, and ease reconciliation. Leveraging automated data feeds from banks' internal risk management systems could further reduce manual errors and expedite supervisory analysis.

Such measures would streamline compliance, allow banks to focus on risk management rather than administrative tasks, and yield more reliable stress test data.

Enhanced Reconsideration Process

I also recommend clarifying and streamlining the reconsideration process. While the framework currently permits institutions to contest their stress capital buffer calculations, it lacks clear criteria for what constitutes acceptable supplementary evidence. For example, when a bank faces an atypical, one-time loss event that does not reflect its ongoing risk profile, the absence of explicit guidelines forces it into an abrupt and costly capital raise.

Defining acceptable documentation—such as independent analyses or substantiated evidence of non-recurring circumstances—would ensure consistent and transparent reviews. Establishing specific review timelines would also allow banks to update their risk profiles promptly, avoiding unpredictable and destabilizing capital adjustments.

Thank you for considering my comments.

Michael Ravnitzky