ROHAN SHARMA

Proposal and Comment Information

Title: Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL, R-1873

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Submitter Information

Name: Rohan Sharma

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Subject: Comment on Enhanced Transparency and Public Accountability of Supervisory Stress Test Models (Docket No. FRS-2025-2014-0001)

From: Rohan Sharma
Aspen Institute Civic AI Leader
Author, AI and the Boardroom (Springer Nature)

Submitted in an individual capacity

To the Board of Governors of the Federal Reserve System:

I write to strongly support the Board's proposal to enhance the transparency of the supervisory models and scenarios used in the Comprehensive Capital Analysis and Review (CCAR).

As a researcher specializing in corporate governance, algorithmic accountability, and enterprise risk and as the author of AI & The Boardroom (Springer Nature), I view the current "black box" approach to supervisory models as a governance anomaly that weakens, rather than strengthens, the financial system.

My support for this proposal is based on two governance principles:
(1) Reduced Model Risk through Explainability, and
(2) Alignment of Board Fiduciary Duties with Regulatory Expectations.

1. Transparency Reduces Systemic "Model Risk"
The argument that transparency leads to "gaming the system" is outdated. In the modern era of algorithmic governance, we recognize that obscurity is not a security feature.

When the Federal Reserve keeps its models opaque, it forces financial institutions to reverse-engineer regulatory expectations rather than focusing on fundamental economic risks.

As noted in my research on algorithmic governance, when oversight models are transparent, regulated entities can stress-test their own portfolios more accurately against the regulator's logic.

This does not help banks "cheat"; it helps them internalize the Fed's risk perspective into their daily operations, reducing the divergence between internal capital planning and supervisory expectations.

2. Enabling Effective Board Oversight

A Board of Directors has a fiduciary duty to oversee capital planning. However, under the current regime, Directors are asked to approve capital plans that hinge on a "Stress Capital Buffer" (SCB) derived from models they are forbidden to understand.

This opacity creates a governance paradox. The Federal Reserve's own guidance on Model Risk Management (SR 11-7) requires banks to have a "sound understanding" of the models they use.

Yet, the Board effectively exempts itself from this standard by shielding its own supervisory models from scrutiny. By publishing these models for public comment, the Board would empower Directors to engage in substantive dialogue about risk assumptions, rather than treating the stress test as an arbitrary compliance hurdle.

3. Conclusion

Transparency is the bedrock of trusted markets. By adopting this proposal, the Federal Reserve will align its supervisory framework with global best practices in algorithmic transparency.

This will not only reduce unnecessary volatility in the capital markets but will also foster a more robust culture of risk management within financial institutions—one based on understanding, not guessing.

I commend the Board (and specifically Vice Chair Bowman) for moving toward a framework that values due process and predictability.

Sincerely,

Rohan Sharma
Aspen Institute Civic AI Leader
Author, AI and the Boardroom (Springer Nature)

Biographical Note: Rohan Sharma's research on governance and algorithmic trust has been cited by organizations including NATO and Google DeepMind, and in publications such as Nature Humanities & Social Sciences and Emerald Publishing journals.