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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

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Please refer to the attached PDF for the full comment letter.

I support enhanced transparency in supervisory stress testing while urging careful balance with supervisory effectiveness. My letter provides detailed analysis and five specific recommendations for implementation.

Submitted On 12 January 2026 via Electronic Submission

Ann E. Misback, Secretary,
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20th Street and Constitution Avenue NW,
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Re: 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]

Docket No. R-1873, RIN 7100-AH05
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Dear Ann E. Misback,

I respectfully submit the following comments relative to the 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 (Docket No. R-1873, RIN 7100-AH05) of the November 2025 Notice of Proposed Rulemaking in an individual capacity.

I generally support the proposed rule's objectives to increase transparency and public accountability. However, I urge the Board to carefully balance disclosure requirements with the need to preserve supervisory effectiveness. The stress testing framework's value depends on maintaining its credibility as a forward-looking tool that cannot be easily gamed or anticipated by regulated institutions.

I. Introduction

The Federal Reserve's proposed rulemaking represents a significant step toward enhancing transparency in the supervisory stress testing framework that has been a cornerstone of post-financial crisis bank regulation (Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010). Stress tests serve as both a supervisory tool and a determinant of capital requirements for the largest banking organizations of the United States of America, with results potentially establishing each institutions' Stress Capital Buffer requirement. This proposal responds to longstanding calls from industry participants, academics, and other stakeholders for greater transparency and public accountability in the stress testing process (Goldstein & Sapra, 2014). While these objectives are laudable, the implementation must carefully preserve the effectiveness of stress tests as a rigorous, forward-looking supervisory exercise (Schuermann, 2016).

II. Background

The supervisory stress test is an annual exercise in which the Federal Reserve evaluates how large bank holding companies and intermediate holding companies would perform under hypothetical severely adverse economic and financial conditions. The Board aims to project each firm's revenues, losses, expenses, and resulting capital levels over a nine-quarter planning horizon using supervisory models and assumptions. These projected capital ratios under stress then determine each firm's Stress Capital Buffer requirement, which is defined as the amount of capital the firm must hold above minimum regulatory requirements.

Currently, the stress testing framework is seen to be operated with limited transparency into the underlying models and assumptions. While the Federal Reserve publishes the scenarios and aggregate results, banks do not receive detailed information about the models used to calculate their specific results. This has led to characterizations of the process as a black box, where firms are subjected to capital requirements without fully understanding how those requirements were derived.

Transparency in this context matters for several interconnected reasons.

First, regulated institutions have a legitimate interest in understanding how their regulatory capital requirements are determined, particularly when those requirements directly affect their business operations and strategic planning.

Second, greater transparency can enhance public accountability by allowing external researchers, policymakers, and the public to evaluate the reasonableness and robustness of supervisory models.

Third, disclosure can foster productive dialogue between supervisors and supervised institutions about model methodologies, potentially improving model quality over time.

International experience provides relevant context. The European Central Bank, for instance, publishes significantly more detail about its stress testing methodologies, including specifics about model structures and key assumptions. This suggests that meaningful transparency is achievable while maintaining an effective supervisory stress testing regime, though differences in regulatory frameworks and banking systems must be considered.

III. Analysis

A. Enhanced Model Transparency

The proposed rule would require the Federal Reserve to publish comprehensive annual documentation of its supervisory stress test models, including detailed descriptions of model methodologies, key assumptions, and material limitations. Additionally, the Board would invite public comment on material changes to these models before implementation. This represents a substantial departure from current practice, where model details remain largely confidential supervisory information.

The benefits of enhanced model transparency are significant. Greater disclosure enables regulated institutions to better understand their capital requirements and manage their balance sheets more effectively. When banks comprehend how supervisory models evaluate different risk exposures, they can make more informed strategic decisions about portfolio composition and risk management. Furthermore, public disclosure subjects supervisory models to external scrutiny from academics, risk management professionals, and other technical experts, potentially identifying weaknesses or improvements that might not be apparent to supervisors alone. This external validation can enhance the credibility and robustness of the stress testing framework.

However, enhanced transparency also presents meaningful risks to supervisory effectiveness. Detailed model documentation could enable sophisticated institutions to optimize their portfolios specifically to perform well under the stress test models rather than genuinely reducing risk. This "teaching to the test" phenomenon would undermine the stress tests' fundamental purpose as a forward-looking supervisory tool designed to ensure resilience against unexpected shocks. If firms can precisely predict their stress test results, they may structure their activities to minimize capital requirements while potentially increasing actual risk in ways not captured by the models.

The appropriate balance requires disclosure that enables understanding and accountability without providing a roadmap for gaming. Model documentation should explain methodological approaches, key assumptions, and general functional forms without revealing the precise parameters, coefficients, or algorithms that would allow firms to reverse-engineer exact results. For instance, disclosing that the Fed uses a particular econometric approach to model credit losses is appropriate; publishing the exact regression coefficients for each loan category may cross the line into enabling strategic positioning.

B. Public Comment Process

The proposed rule establishes a public comment process for material model changes, with the Board soliciting feedback before implementing significant modifications to stress test models. Annual stress test scenarios would similarly be published for public comment, though the Board retains discretion to deviate from proposed scenarios when necessary to address emerging risks.

This formalization of public input enhances the legitimacy and transparency of the supervisory process. Allowing stakeholders to comment on model changes creates accountability and may surface valuable technical perspectives. Banks with deep expertise in specific portfolios or risk areas can provide useful feedback on whether proposed model changes appropriately capture relevant risks. Academic researchers and other external experts may identify methodological concerns or suggest alternative approaches that improve model quality.

However, several practical concerns warrant consideration. First, the timeline for implementing model improvements could be extended by the comment process, potentially delaying necessary updates in response to emerging risks. Financial markets and risk profiles evolve rapidly; a lengthy public comment period for every material model change could leave supervisory models outdated when swift action is needed. The proposal should include expedited procedures for urgent model updates responding to acute threats to financial stability.

Second, the effectiveness of public comment depends on who participates and the quality of feedback received. Large, sophisticated banking organizations with substantial regulatory affairs and modeling teams will be well-positioned to submit detailed technical comments. Smaller institutions and public interest groups may lack the technical resources to engage meaningfully with complex econometric models. This asymmetry could result in the comment process primarily reflecting the preferences of the largest regulated entities, potentially skewing model development in ways that serve their interests rather than broader financial stability objectives.

Third, annual comment on stress test scenarios raises questions about whether meaningful revision is feasible. Stress test scenarios must be developed, published for comment, potentially revised, and then finalized in time for banks to run their own stress tests and submit results. This compressed timeline may limit the Board's ability to substantively incorporate feedback without disrupting the annual stress test cycle.

C. Stress Test Scenarios

The proposed rule would codify the Federal Reserve's Scenario Design Framework, which outlines principles for developing the hypothetical severely adverse economic and financial conditions used in stress tests. Scenarios would be published earlier to allow for public comment before finalization.

Earlier publication of scenarios enhances transparency and allows public scrutiny of whether proposed scenarios appropriately capture relevant risks. However, earlier disclosure also provides regulated institutions with more time to analyze scenarios and potentially adjust positions before the stress test as-of date. While firms cannot completely restructure their balance sheets in response to scenarios, even marginal adjustments could reduce the stress test's effectiveness as a measure of resilience against unexpected shocks. The Board should carefully consider whether the benefits of earlier publication outweigh this risk.

The codification of scenario design principles is a welcome step toward systematic, rules-based scenario development. Transparent principles reduce the perception of arbitrariness and enable stakeholders to understand how scenarios are constructed. However, codification should not become overly rigid. The Federal Reserve must retain flexibility to design scenarios that capture novel risks and tail events that may not fit established patterns. Financial crises consistently involve unexpected combinations of stresses; scenarios constrained by codified principles might fail to capture these "unknown unknowns."

A significant gap in current scenario design is the limited incorporation of climate-related financial risks. Physical risks from extreme weather events and transition risks from the shift away from carbon-intensive activities present material threats to financial institutions' balance sheets. While climate risks operate over longer time horizons than the traditional nine-quarter stress test window, the Federal Reserve should consider how climate factors might amplify or interact with traditional economic and financial stresses. The Board has begun exploratory climate scenario analysis, but these exercises remain separate from the supervisory stress test framework (Board of Governors of the Federal Reserve System, 2024). Integrating climate considerations into scenario design would enhance the stress tests' forward-looking nature and better prepare institutions for emerging risks.

D. FR Y-14 Reporting Changes

The proposed rule would modify the FR Y-14 data collection, which requires large bank holding companies to submit detailed information about their portfolios, positions, and risk characteristics. The Board proposes to eliminate certain outdated or underutilized data elements while adding new collections to improve supervisory models' accuracy and reflect evolving bank activities.

Any changes to regulatory reporting must balance the supervisory benefit of additional data against the compliance burden imposed on regulated institutions. The Federal Reserve should rigorously evaluate whether each proposed new data element will meaningfully improve model accuracy or supervisory insight. Data collections that duplicate information available from other sources or that gather information of marginal analytical value should be eliminated rather than expanded.

Streamlining outdated collections is appropriate and reduces unnecessary burden. However, the Board should engage closely with industry participants to identify which current data elements provide limited supervisory value. Banks maintain complex data infrastructure to comply with regulatory reporting requirements; eliminating collections that require bespoke systems or processes could yield significant efficiency gains.

New data elements should focus on areas where current reporting gaps limit the Federal Reserve's ability to accurately assess risk. For instance, enhanced data on operational risk exposures, fee income volatility, and funding concentrations could improve model calibration. However, the Board must ensure that data quality and consistency standards are clear before implementing new collections. Inconsistent definitions or reporting practices across institutions undermine data utility and can distort supervisory models' outputs.

IV. Recommendations

Based on the analysis above, I offer the following recommendations to strengthen the proposed rule while appropriately balancing transparency with supervisory effectiveness:

1. Phased Transparency Implementation

The Federal Reserve should consider a phased approach to model disclosure that begins with less sensitive components and gradually increases transparency as the Board evaluates impacts on supervisory effectiveness. Initial disclosures could focus on high-level methodological frameworks, general modeling approaches, and conceptual descriptions of how different risk types are evaluated. Subsequent phases could provide greater technical detail as the Board assesses whether earlier disclosures have enabled gaming or strategic positioning by regulated institutions.

This graduated approach allows the Federal Reserve to course-correct if certain disclosures prove problematic while still advancing transparency objectives. For example, the Board might initially publish comprehensive documentation for operational risk and fee income models, areas where gaming opportunities would be more limited, before disclosing greater detail about credit loss models for specific loan categories. Monitoring stress test results across disclosure phases would provide empirical evidence about whether increased transparency correlates with strategic portfolio adjustments or gaming behavior.

2. External Review Process

The Federal Reserve should establish a formal external review mechanism whereby independent academic and technical experts periodically evaluate stress test methodologies. This could take the form of an advisory panel similar to the FDIC's Systemic Resolution Advisory Committee, composed of economists, econometricians, risk management professionals, and other relevant experts without direct financial interests in stress test outcomes (Establishment of the FDIC Systemic Resolution Advisory Committee, 2011). An external review panel would provide rigorous technical scrutiny while maintaining appropriate confidentiality around sensitive model details.

Panel members could be granted access to comprehensive model documentation under confidentiality agreements, enabling thorough evaluation without public disclosure of gaming-vulnerable information. The panel's findings and recommendations could be published in summary form, enhancing public accountability while protecting supervisory effectiveness. This approach would capture many benefits of public transparency including those of expert scrutiny, credibility enhancement, identification of model limitations all without the gaming risks associated with full public disclosure.

3. Climate Risk Integration

The Federal Reserve should develop a comprehensive framework for incorporating climate-related financial risks into stress test scenarios and models. While climate risks unfold over a longer time span than traditional stress tests, their potential magnitude and the financial system's exposure to the externalities warrant systematic integration into the supervisory framework.

The Board could begin by incorporating climate considerations into the narrative descriptions of severely adverse scenarios, with explanations on how physical risks such as extreme weather events and sea-level rise as well as transition risks such as policy changes, technological shifts and demand changes might amplify traditional economic and financial stresses. Over time, the Fed should develop specific climate stress scenarios, potentially on a biennial basis to reflect the longer time span of climate-related risks and externalities.

These exercises would evaluate banking organizations' exposure to climate-vulnerable sectors, the adequacy of risk management practices, and potential capital needs under various climate transition pathways.

The Federal Reserve's recent climate scenario analysis pilot provided valuable foundational work (Board of Governors of the Federal Reserve System, 2024). Building on these efforts, the Board should develop standardized climate risk data collections and modeling approaches that can be integrated into the supervisory stress test framework. This forward-looking orientation would enhance the stress tests' ability to identify emerging vulnerabilities and ensure the banking system's resilience against twenty-first century risks.

4. International Coordination

The Federal Reserve should align its disclosure practices with international peers, particularly the European Central Bank and Bank of England, to ensure competitive neutrality and facilitate cross-border comparability. International coordination on stress test transparency prevents regulatory arbitrage and ensures that U.S. banking organizations are neither disadvantaged by excessive disclosure requirements nor advantaged by opacity relative to foreign competitors.

The Board should engage actively with international standard-setting bodies, including the Financial Stability Board and Basel Committee on Banking Supervision, to develop common principles for stress test disclosure. Areas of focus should include the appropriate level of model detail for public release, timing of scenario publication, and formats for presenting results. While jurisdictional differences in banking systems and regulatory frameworks require some flexibility, convergence on core transparency principles would enhance global financial stability and market confidence.

International alignment also facilitates learning from peers' experiences. The ECB's relatively extensive stress test disclosures provide a natural experiment in whether greater transparency undermines supervisory effectiveness (Altunbaş et al., 2022). The Federal Reserve should systematically evaluate European experience, assessing whether ECB disclosures have enabled gaming and whether model quality has improved through public scrutiny. This evidence-based approach would inform optimal U.S. disclosure practices.

***5.* Dynamic Scenario Adjustment**

While the proposed rule appropriately codifies scenario design principles, the Federal Reserve must retain explicit flexibility to adjust scenarios between annual cycles if material risks emerge. The proposed framework should include clear provisions for implementing expedited scenario modifications without full public comment when financial stability considerations require swift action.

Financial crises often develop rapidly, and supervisory tools must be responsive to emerging threats. If novel risks materialize, whether from geopolitical developments, market dislocations, technological disruptions, or other sources, the Board should be able to incorporate these risks into stress test scenarios on an accelerated timeline.

The rule should specify criteria for invoking expedited procedures, such as identification of systemic risks by the Financial Stability Oversight Council or material changes in financial conditions that significantly alter the risk environment.

This flexibility does not undermine transparency but rather recognizes that rigid procedures can impede effective supervision. The Board should commit to explaining ex post when expedited procedures were used and why they were necessary, maintaining accountability while preserving supervisory agility. This approach balances the legitimate demand for predictable, transparent processes with the practical reality that financial risks do not respect regulatory calendars.

V. Conclusion

I support the Federal Reserve's proposed enhancements to transparency and public accountability in the supervisory stress testing framework. Greater disclosure of model methodologies, the establishment of a public comment process for material changes, and codification of scenario design principles represent important steps toward a more transparent and accountable supervisory regime. These reforms can improve model quality, enhance regulatory legitimacy, and enable regulated institutions to better understand their capital requirements.

However, the Board must carefully balance transparency with supervisory effectiveness. The stress testing framework's value depends on its credibility as a rigorous, forward-looking tool that cannot be easily gamed or anticipated. Excessive disclosure risks transforming stress tests from measures of genuine resilience into compliance exercises where firms optimize for known model specifications rather than reducing actual risk. The challenge is to provide sufficient transparency for accountability without creating a roadmap for regulatory arbitrage.

To strike this balance, I recommend that the Board

(1) disclose methodological approaches and key assumptions without revealing precise parameters that enable reverse-engineering of results;

(2) establish expedited procedures for urgent model updates to ensure transparency does not impede timely responses to emerging risks;

(3) monitor whether enhanced disclosure leads to strategic gaming and adjust practices accordingly; and

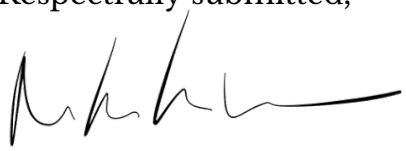
(4) continue evolving scenario design to capture emerging risks, including climate-related financial risks.

Finally, this rulemaking should mark the beginning of an ongoing dialogue rather than a final determination. The Federal Reserve should commit to evaluating the effects of enhanced transparency on both public accountability and supervisory effectiveness, adjusting disclosure practices based on implementation experience.

Regular engagement with stakeholders including regulated institutions, academics, and public interest groups is essential as financial markets and risk profiles continue to evolve. Enhanced transparency is both achievable and desirable when implemented thoughtfully.

I commend the Board of Governors of the Federal Reserve System for this important initiative while encouraging careful calibration that advances transparency while preserving the stress testing framework's fundamental prudential purpose.

Respectfully submitted,



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