Date: January 21, 2026

To: Board of Governors

From: Staff[1]

Subject: Final notice adopting the final 2026 stress test scenarios

ACTIONS REQUESTED: Approval of a final notice that would announce the publication of the final 2026 supervisory stress test scenarios (the "2026 scenarios"), and models used for generating the final scenarios (collectively, the "final notice"). Staff also request authority to make technical, non-substantive changes to the attached materials prior to publication.

EXECUTIVE SUMMARY:

- In October 2025, the Board approved a proposal seeking comment on the scenarios it planned to use for the 2026 stress test.[2]
- The final 2026 scenarios would adopt the proposed 2026 scenarios largely as proposed, including the models used to generate the final 2026 scenarios. The final scenario paths reflect changes in jump-off economic conditions since the proposal was published and consideration of comments received.
    - Together with the final 2026 scenarios, the Board would publish a review of comments and changes to the final 2026 scenarios, which would discuss the severity of the 2026 severely adverse scenario, including the global market shock component,

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[2] *See* 90 FR 51762 (November 18, 2025). This proposal was posted to the Board's public website on October 24, 2025. Board, "Federal Reserve Board requests comment on proposals to enhance the transparency and public accountability of its annual stress test," press release, October 24, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251024a.htm. The comment period for the proposed scenario design and enhanced disclosure processes ends February 21, 2026.

and would provide additional details regarding the Board's process for generating scenario variable paths using the Board's macro model for Stress Testing.

- The final 2026 scenarios would also reduce the magnitude of shocks to certain securities and commodities within the global market shock component, which would promote consistency across shocks and improve the joint plausibility of shocks, without materially affecting the overall severity of the 2026 scenario or revising the character of the 2026 scenario.
- Consistent with the Board's practice, the final notice would include the list of counterparties excluded from the largest counterparty default component for the 2026 stress test, which would be adopted as proposed.
- Finally, the final notice would defer decisions on issues raised by commenters that pertain to stress test modeling assumptions, as well as on aspects of the proposed scenario design and enhanced disclosure processes that are components of the Board's transparency and public accountability notice.[3]

I. 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 companies, savings and loan holding companies, and U.S. intermediate holding companies of foreign banking organizations (collectively, firms) have sufficient capital to absorb potential losses and continue lending under a set of hypothetical severely adverse conditions.[4]

[3] Examples of issues that would be more appropriate to address in the transparency and public accountability notice include: (1) whether the Board should continue to seek comment on the scenarios for future stress tests, (2) the level of discretion the Board should retain in scenario design, (3) how to maintain relatively consistent severity from the proposed to final scenario, and (4) the list of counterparties excluded from the largest counterparty default component for future stress tests.

[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). The Board also has the authority to conduct a stress test of any nonbank financial companies that become supervised by the Board. 12 U.S.C. § 5365(i)(1).

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 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.[5] The global market shock component applies to firms with a significant amount of trading activity. This component is specified by a collection of hypothetical shocks to a large set of risk factors reflecting general market distress and heightened uncertainty in financial markets. 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.[6] 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.

The Board has enhanced the transparency of its scenario design process over time. The Board issued the Policy Statement on the Scenario Design Framework for Stress Testing (Scenario Design Policy Statement) in 2013 and finalized the current version in 2019.[7] In addition, the Board annually publishes a descriptive narrative summarizing the annual

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

[6] 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.

[7] *See* 78 FR 71435 (2013 version); 84 FR 6651 (2019 amendments); 12 CFR Part 252, App'x A.

supervisory scenario and the values of the macroeconomic variables and the global market shock values.

II. Summary of Proposal and Comments Received

On November 18, 2025, the Board posted in the Federal Register a request for comment (the proposal) that solicited public feedback on the scenarios the Board planned on using in the 2026 supervisory stress test, as well as on comprehensive documentation regarding the Board's models used for supervisory stress test scenario generation.[8]

A. 2026 Supervisory Stress Test Scenarios

The proposed 2026 severely adverse macroeconomic scenario was characterized by a hypothetical global recession triggered by an abrupt decline in risk appetite that caused substantial declines in the prices of risky assets, declines in risk-free interest rates, and high levels of volatility. This scenario was consistent with the Scenario Design Policy Statement.

The proposed 2026 global market shock component was characterized by heightened market expectations of persistently high inflation and higher commodity prices, which could lead to a global recession. The proposed global market shock component had certain elements in common with prior episodes of market reactions to periods of expected high inflation combined with low growth.

The proposed scenarios were developed solely for supervisory stress testing purposes and did not represent economic forecasts by the Board.

[8] *See supra* note 2.

B. Summary of Comments Received

The Board received five comments on the proposal from policy advocacy groups, banking organizations, banking and financial industry trade associations, and other individuals.

Some commenters generally appreciated the ability to comment on the stress test scenarios, as well as the Board's overall transparency and public accountability efforts. One of these comments further asserted that these efforts are critical to complying with the Administrative Procedure Act, given that the commenters view the scenarios as a legislative rule.

Some commenters objected to certain aspects of the proposal. One commenter stated that the proposal would undermine the scenario design process and result in scenarios that are more repetitive and historically tied, and therefore, less likely to capture salient, unseen, or under-appreciated risks. This commenter further stated that inviting public comment on the scenario design process and principles would expose the Board to greater litigation risk, as it would enable the banking industry to sue the Board on each aspect of its scenario design process.

Another commenter stated the proposed scenarios and global market shock values for the 2026 stress test were too severe and that the individual variables within the proposed scenario were not coherent compared to previous historical stress events (such as the 2007-2009 financial crisis) and in consideration of current economic conditions. This commenter also expressed concern that the Board had too much discretion in scenario design and requested more information for how the Board would determine jump-off values for final scenario variables since these jump-off values may not be known until after the Board has requested comment on the scenarios.[9]

One commenter recommended that the Board expand the proposed list of counterparties excluded from the largest counterparty default component of the severely adverse scenario to include all sovereign and public sector entity counterparty exposures that receive an internal credit rating equivalent to AA- or higher, as calculated by a firm's second-line credit risk management function.

The attached summary of comment responses, which will be published on the Board's website along with the scenarios, includes a more detailed discussion of the comments received on each aspect of the proposal.

III. Overview of Final 2026 Scenarios

The final 2026 scenarios would largely adopt the characteristics of the proposed 2026 scenarios, updated based on changes in economic conditions, with two exceptions that are described below. The Board would also provide more details on certain aspects of the scenario-generating models, such as the generation of macroeconomic variables using the Board's macro model for Stress Testing.[10]

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[9] The as-of date of the 2026 stress test is December 31, 2025, and so the jump-off values refer to fourth-quarter values for scenario variables, as of December 31, 2025. The data for the fourth quarter were not available when the 2026 scenarios were proposed.

[10] Additionally, two commenters raised several issues that were not specific to the 2026 scenarios, and instead dealt more with aspects of stress test model assumptions related to the largest counterparty default component, the enhanced disclosure process in which the Board would annually seek comment on its stress test scenarios, the level of discretion the Board would retain in its scenario design process in light of the proposed guides for scenario variable paths, and how the Board would maintain a relatively consistent severity from the proposed to final scenarios given that actual and proposed jump-off values for the variables may differ. Since

Scenario Severity

One commenter argued the paths for certain macroeconomic variables were too severe given the expected jump-off values (i.e., data as of December 31) and historical observances of previous episodes of financial stress. The commenter focused on three variables: commercial real estate (CRE) prices, the BBB corporate spread,[11] and the VIX.[12]

The final notice would maintain current paths for all macroeconomic variables, which would reflect the proposed joint calibration for several variables set at the upper third of the ranges in their proposed guides.[13] In setting the values for the final 2026 scenario, including for CRE prices, the BBB spread, and the VIX, staff considered current economic conditions, including the impacts of updated data on the final scenario variables, as well as observed historical experience and the Board's current policy statements. In light of those considerations, the final notice would retain the aggregate severity of the final 2026 scenario, which is

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these issues are not specific to the 2026 scenarios, the final notice does not address these issues. The Board will consider these issues together with any other public comments received on these elements of the transparency and public accountability notice.

[11] The commenter focused on the BBB spread, which is not one of the variables of the Board's scenarios. The BBB spread is calculated as the difference between the BBB corporate yield and the 10-year Treasury yield, both of which are variables of the Board's scenarios.

[12] The final notice also addresses comments received on the severity of the paths of other macroeconomic and global market shock variables, such as the spread between the 10-year and 3-month Treasury yields (term spread), as well as the shocks to equity dividends and non-investment-grade cash bonds.

[13] Setting a particular aggregate severity level for several variables is supported by the available academic literature, deemphasizes salient risks in individual stress test scenarios, increases predictability of scenarios, and helps promote the stability of the stress test scenarios year-over-year. *See* E. Afanasyeva et al., *Evaluating Empirical Regularities in Variable Comovement in Stress Test Scenarios,* FEDS Notes (Sep. 19, 2025), https://www.federalreserve.gov/econres/notes/feds-notes/evaluating-empirical-regularities-in-variable-comovement-in-stress-test-scenarios-20250919.html, and citations within that note.

appropriate to help ensure that large banking organizations are sufficiently capitalized and able to lend to households and businesses even in a severe recession.

Jump-off Date Values

One commenter requested more information for how the Board would determine jump-off values for final scenario variables since these jump-off values may not be known until after the Board requested comment on the scenarios. As explained in the proposed scenario,[14] for the final 2026 scenarios, the actual jump-off values for some variables are now available and have been incorporated into the final scenarios. For the remaining variables, the jump-off values are set using the most recently published data and the methodology described in the Board's transparency and public accountability notice.

Output of the Macro Model for Stress Testing

The proposed paths for certain macroeconomic variables were generated by the Board's macro model for Stress Testing. However, one commenter stated that these paths were not replicable using the macro model for Stress Testing documentation published, which indicated to the commenter that these values may not have been solely produced by that model.

The final notice would provide additional details outlining the exact specification by which the natural rate of unemployment (NRU) and potential GDP are determined in the baseline scenario. This approach would provide further transparency.

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[14] *See* "Methodology to Update the Scenarios to Incorporate Additional Data Releases" section of the proposed 2026 scenarios. Board (2025), "2026 Stress Test Scenarios," Board publication, https://www.federalreserve.gov/aboutthefed/boardmeetings/2026-proposed-supervisory-stress-test-scenarios-20251024.pdf.

Scenario Changes from Proposal

The final notice would make two revisions to the proposed global market shock component of the 2026 severely adverse scenario. First, the final notice would reduce the magnitude of the shock to agency pass-through securities. This revision would improve the consistency of shocks applied to similar securities exposures. Second, the final notice would reduce the severity of commodity shocks to enhance the joint plausibility of shocks.

Exclusion List for Largest Counterparty Default Component

The final notice would adopt the exclusion list as proposed for the 2026 stress test, as the proposed list recognized the lower risk of default associated with sovereigns of high credit quality.[15] However, the final notice would indicate that the Board will continue to consider the composition of this list for future stress tests.

RECOMMENDATIONS:

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

[15] For the 2026 stress test, exposures to qualifying central counterparties, affiliates of intermediate holding companies, certain multilateral development banks and supranational entities, the United States, and sovereign entities rated AA- or higher based on the median of firms' internal ratings would be excluded from the largest counterparty default component.