

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Date: August 31, 2026  
To: Board of Governors  
From: Staff<sup>1</sup>  
Subject: Final rules to enhance the transparency and public accountability of the Board's stress testing framework and to reduce the volatility of the stress capital buffer requirement, and a proposal to invite public input on certain additional changes to stress test models

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**ACTIONS REQUESTED:** Approval of (1) a draft final rule to publish in the Federal Register to (i) establish a public input process for stress test models and scenarios; (ii) adopt amendments to the Policy Statement on the Scenario Design Framework for Stress Testing; (iii) adopt amendments to the Stress Testing Policy Statement; (iv) adopt revisions to the FR Y-14 reports; (v) publish the 2027 supervisory stress test models; and (vi) a summary of comments received on the proposed models and changes made to the proposed models in connection with finalization, to be published on the Board's website ((i)-(vi), the "enhanced transparency and public accountability final rule"); (2) a draft final rule to publish in the Federal Register to average the results of the supervisory stress test over two years (the "volatility final rule"); and (3) a draft Federal Register notice to seek public feedback on additional revisions to the models for the 2027 stress test, as well as propose targeted revisions to the FR Y-14A/Q/M reports (the "2027 model changes and reporting proposal"). Staff also request authority to make technical, non-substantive changes to the attached materials prior to publication.

**EXECUTIVE SUMMARY:**

- Stress tests are embedded in the regulatory capital framework, with their results informing each firm's specific stress capital buffer requirement. The stress capital buffer requirement, which is

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transparent, granular, and consistently risk-sensitive, complements minimum risk-based capital requirements and varies with firms' risk-taking behavior. For instance, as a firm takes on additional risks, it should expect those risks to be reflected in greater losses in the stress test, leading to higher capital requirements, and vice versa.

- To enhance the transparency and public accountability, and maintain the durability of the stress test, staff recommend that the Board finalize two rules and request comment on a proposal that would make additional revisions to the 2027 stress test models.

#### *Enhanced Transparency and Public Accountability Final Rule*

- The final rule would adopt, with some changes, the proposed rule to increase the transparency and public accountability of the stress test issued by the Board in October 2025.<sup>2</sup> The final rule would be effective for the 2027 stress test. The final rule would:
  - Require the Board to invite public input annually on the stress test scenarios and material model changes;<sup>3</sup>
  - Adopt amendments to the Board's Stress Testing Policy Statement and the Board's Policy Statement on the Scenario Design Framework for Stress Testing (Scenario Design Policy Statement) to enhance the content of the results disclosed to firms and establish additional guides in the scenario design process, respectively; and
  - Following consideration of public input on the proposed models, adopt supervisory models for the 2027 stress test.
- The final rule would also adopt several changes from the proposal:
  - The final rule would maintain the jump-off date of the stress test as December 31 of the year prior to the stress test, and make related changes to the stress test calendar, as shown in Appendix A.
  - Regarding the global market shock component of the severely adverse scenario, the final rule would adjust the as-of date range and codify the Board's process to notify affected firms of the as-of date. Additionally, the final package would narrow the range of referenced historical values that would only be exceeded on an exceptional basis. Finally, the package would introduce an approach where the Board expects to select two global market shock scenarios on the same as-of date in the annual supervisory stress test, and use the scenario that generates higher losses in the calculation of a firm's stress test results.
- The Board would also adopt supervisory models for the 2027 stress test, following consideration of public input on the proposed models.

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<sup>2</sup> See 90 FR 51856 (November 18, 2025).

<sup>3</sup> Because this final package takes effect after August 31 of the year prior to the 2027 stress test, this aspect of the final rule will not be effective until the 2028 stress test. In this package, the Board is finalizing models for the 2027 stress test that have already received public input, and the 2027 model changes and reporting proposal would only be implemented after a public input period.

### *Volatility Final Rule*

- The final rule would adopt the proposed rule issued by the Board in April 2025.<sup>4</sup> Specifically, the final rule would:
  - Reduce the volatility of stress capital buffer requirements by averaging the results from each of the two most recent annual supervisory stress tests for firms subject to the stress test each year;<sup>5</sup> and
  - Change the effective date of the stress capital buffer requirement to January 1 of the year following the stress test, which would provide three months of additional time for firms to comply with a new stress capital buffer requirement.
- Certain elements of the final rule, including the new effective date for the stress capital buffer requirement, would be effective for the stress capital buffer requirement effective on January 1, 2028. Averaging stress test results to inform stress capital buffer requirements would be effective starting with the stress capital buffer requirement effective on January 1, 2029, to ensure that stress capital buffer requirements are calculated using only models that incorporate public input.

### *2027 Model Changes and Reporting Proposal*

- This proposal would include a revised noninterest income model that would improve capture of business model diversity across firms. If adopted, these adjustments would replace the noninterest income model that would be finalized as part of this package.
- The proposal would also include FR Y-14A/Q/M reporting changes necessary for future model development or to improve the existing instructions.

### *Combined Impact Analysis*

- Combined, the enhanced transparency and public accountability final rule and the volatility final rule are not expected to materially change aggregate capital requirements. Relative to the results from the 2024, 2025, and 2026 stress testing cycles, staff analysis indicates that the adopted and proposed changes would have reduced aggregate stress capital buffer requirements by approximately 1 percent of required common equity tier 1 capital. The final rules, together with the stress test model and scenario changes, are expected to reduce the volatility of annual changes in stress capital buffer requirements by approximately 50 percent.

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<sup>4</sup> See Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement, 90 FR 16843 (April 22, 2025).

<sup>5</sup> The stress capital buffer requirement framework applies to firms subject to Category I, II, III or IV standards. A firm subject to Category I through III standards must participate in the supervisory stress test every year, while a firm subject to Category IV standards is generally required to participate only every other year. See 12 CFR 217.2; 12 CFR 238.10; 12 CFR 252.5.

### *Changes to FR Y-14A/Q/M Reports*

- Both the enhanced transparency and public accountability final rule and the volatility final rule would modify certain elements of the FR Y-14A/Q/M reporting forms to collect additional data, while removing unnecessary items.

## **DISCUSSION:**

### **A. Background**

Stress testing is a fundamental element of the Board’s regulatory framework and supervisory program for large firms. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)<sup>6</sup> requires the Board to conduct an annual supervisory stress test of large firms.<sup>7</sup> 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.<sup>8</sup>

Since 2020, the supervisory stress test results have also informed a firm’s stress capital buffer requirement.<sup>9</sup> The stress capital buffer requirement provides a dynamic, forward-looking approach to capital regulation that adapts to changing economic conditions and firm risk profiles.

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<sup>6</sup> See Dodd-Frank Act, Section 165(i)(1), Public Law 111–203, 124 Stat. 1376 (2010).

<sup>7</sup> 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).

<sup>8</sup> See *id.*

<sup>9</sup> In 2020, the Board finalized a rule to integrate supervisory stress test results into the capital framework through the stress capital buffer requirement, which 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 (“stress capital decline component”) plus four quarters of planned common stock dividends (“dividend add-on component”), expressed as a percent of risk-weighted assets, with a 2.5 percent floor. See 85 FR 15576 (March 18, 2020).

Improving the transparency of the stress test, and reducing the volatility of stress capital buffer requirements, is expected to allow firms to better understand the capital requirements associated with investment in and expansion of different business lines and should facilitate more effective long-term capital planning. This understanding, in turn, is expected to enhance firms' ability to supply credit to households and businesses, ultimately supporting economic growth and financial stability.

The stress test scenarios and models are central components of the supervisory stress test. The Board's stress test is generally conducted using a baseline and severely adverse scenario. The severely adverse scenario describes a hypothetical set of conditions designed by the Board to assess the strength and resilience of firms in a severely adverse economic environment. Using this detailed scenario data combined with data submitted by firms about their individual risk exposures, the Board's stress test models generate the results of the supervisory stress test. For a subset of firms with a significant amount of trading activity, the severely adverse scenario includes a global market shock component,<sup>10</sup> while other firms are subject to the largest counterparty default component.<sup>11</sup>

Making the scenarios and models more transparent, and inviting public comment on them, should also enable the public to identify any limitations in the models and scenarios, giving the Board the opportunity to correct them.

## **B. Summary of Proposals and Comments Received**

### *Enhanced Transparency and Public Accountability Proposal*

In October 2025, the Board requested comment on a proposal to enhance the transparency and public accountability of its stress test. The proposal would have codified an enhanced disclosure process under which the Board would publish annually updated comprehensive documentation on the stress test

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<sup>10</sup> See 12 CFR 238.143(b)(2); 252.14(b)(2) and 252.54(b)(2).

<sup>11</sup> *Id.*

models, invite public input on material changes to those models before implementing them in the supervisory stress test, publish annually the stress test scenarios for public input prior to their finalization, and amend the stress test’s annual calendar. This proposal also included amendments to the Board’s Stress Testing Policy Statement and the Scenario Design Policy Statement. Finally, the Board also published for public input comprehensive documentation on the supervisory stress test models for implementation in future tests, and certain modifications to elements of the FR Y-14A/Q/M reports.<sup>12</sup>

### Summary of Comments

The Board received 30 comments on the proposal from banking organizations, trade associations, public interest groups, and private individuals.<sup>13</sup> Most commenters were supportive of the proposal’s objectives of providing the public with more information about the stress test models and scenarios and improving the transparency, public accountability, and predictability of the supervisory stress test, while ensuring the supervisory stress test’s ability to capture risks. However, other commenters objected to the increased transparency, stating that it would undermine the effectiveness and dynamism of the stress test. Commenters provided a range of views on the proposed changes to the stress test rules, policy statements, scenarios and models.

### *Volatility Proposal*

In April 2025, the Board issued a proposal that would have reduced the volatility of stress capital buffer requirements by averaging the results of the supervisory stress test from the two most recent annual stress tests when calculating a firm’s stress capital buffer (“results averaging”). The proposal also would have provided three months of additional time for firms to comply with a new stress capital

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<sup>12</sup> The modifications to the FR Y-14A/Q/M reports include removing several data items and supporting documentation requirements that are no longer needed to conduct the supervisory stress test, as well as collecting additional data to improve the accuracy of the stress test results.

<sup>13</sup> See *supra* note 2.

buffer requirement by extending the effective date of the stress capital buffer requirement from October 1 to January 1 in each year.<sup>14</sup> The proposal also would have modified certain elements of the FR Y-14A/Q/M reporting forms to: (i) collect data that would provide greater insight into the composition of net income of large firms; and (ii) remove several data items that are no longer needed to conduct the supervisory stress test.

### Summary of Comments

The Board received 16 comments on the proposal from banking organizations, trade associations, public interest groups, and private individuals.<sup>15</sup> Most commenters supported the proposal's objective to reduce volatility in the stress capital buffer requirement by averaging the results of the supervisory stress test. Commenters were also broadly supportive of the proposal's one-quarter extension of the effective date of the stress capital buffer requirement, from October 1 to January 1, and the proposed modifications to the FR-14A/Q/M reports, with some recommendations to clarify instructions. A few commenters opposed the proposal, arguing that it is not necessary and would weaken the supervisory stress test.

## **C. Overview of Draft Final Rules**

### *Enhanced Transparency and Public Accountability Final Rule and Final 2027 Models*

The enhanced transparency and public accountability final rule would adopt the proposal largely as proposed, but with some modifications. In general, revisions were made in consideration of comments and would further improve the transparency and public accountability of the stress test.

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<sup>14</sup> The proposal would have altered the timing of the quarters of dividends included in the dividend add-on to align with the new stress capital buffer requirement effective date. It would also have eliminated the phase-in of highly material model changes over a two-year period.

<sup>15</sup> See Modifications to the Capital Plan Rule and Stress Capital Buffer Requirements [R-1866], <https://www.federalreserve.gov/apps/proposals/FR-2025-0026-01/comments>.

The transparency and public accountability final rule would codify an enhanced disclosure process in the Board's regulations under which the Board commits to requesting public input on the stress test models and scenarios. In a change from the proposal and in consideration of concerns raised by commenters about changes to existing year-end processes, the final rule would maintain the December 31 jump-off date of the stress test. The final rule also makes complementary changes to the stress test calendar to accommodate the change to the jump-off date and the annual scenario public input process. For a detailed table of all changes to the stress testing calendar, see Appendix A.

Consistent with the proposal, the final rule would require the Board to invite public input on any material changes to the models before such changes are implemented in the supervisory stress test. The final rule would specify that these proposed changes be published for public input before implementation in the stress test, and, beginning with the 2028 stress test, these changes will be proposed by August 31 of the year prior to the stress test, for a period of at least 30 days. Additionally, the Board would publish descriptions of the models used in that year's stress test by May 15 of each year. This publication would include material model changes adopted by the Board and all other nonmaterial model changes. In consideration of comments, the final rule would also enable the Board to make and disclose any additional nonmaterial, technical updates to the models after May 15, with any such changes to be disclosed no later than the results disclosure, in order to correct any identified errors in the stress test models or documentation.

With respect to the global market shock component, the Board is adopting changes to expand the as-of date range from the current five months to nine months, over a period from April 1 to December 31 of the year preceding the stress test, which is a shorter period than proposed. The final Scenario Design Policy Statement also explains the Board's approach to selecting two global market shock scenarios on the same as-of date for a single annual stress test. Under this approach, the Board would

use the shock that produces the largest losses for each firm to calculate the firm's stress test results. These changes address comments on the proposal and are expected to reduce volatility in stress test results, while balancing the risk capture benefits of a wider date range and the use of two shocks with cost burdens associated with too wide of a date range.<sup>16</sup>

The Board would also adopt the supervisory models for the 2027 stress test. It would finalize, with some changes, proposed modifications to these models relative to those used in the 2025 supervisory stress test. These changes were informed by commenters' recommendations. See Appendix B for a description of the changes. Descriptions of finalized models and changes to the models would be published on the Board's website upon publication of the final rule.

In preparing this package, staff considered the overlaps between the regulatory capital and stress testing frameworks, including the Board's recent Basel III proposal, and the broader goal of improving risk sensitivity across these frameworks.<sup>17</sup> The proposed Basel III revisions to the capital framework would set minimum capital requirements generally using standardized measures for credit, market, and operational risks, while using granular, firm-specific models in certain circumstances for market risk.

In contrast, the stress test framework generates stress capital buffer requirements through a forward-looking assessment of risk under stressful conditions. Stress capital buffer requirements effectively complement minimum risk-based capital requirements for firms with assets of \$100 billion or more.

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<sup>16</sup> The enhanced transparency and public accountability final rule will also adopt other amendments to the Board's Stress Testing Policy Statement and the Scenario Design Policy Statement, such as implementation guides for additional macroeconomic scenario variables, largely as proposed.

<sup>17</sup> See Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 FR 14952 (Mar. 27, 2026).

The changes to the stress test framework and models are expected to advance the goal of improving risk sensitivity across large firms in the capital framework. As a result, stress test results should better reflect the types and magnitude of risks on a firm's balance sheet. For example, a firm that takes on additional risk should expect those risks to be reflected through greater losses in the stress test, potentially leading to higher capital buffer requirements for that firm. Conversely, a reduction in risks on a firm's balance sheet should be expected to result in reduced losses in the stress test, leading to lower capital buffer requirements for that firm.

#### *Volatility Final Rule*

Consistent with the volatility proposal, to reduce the volatility of stress capital buffer requirements, the final rule would use the average of the maximum common equity tier 1 (CET1) capital ratio declines projected in each of the Board's two most recent annual supervisory stress tests to determine a firm's stress capital buffer requirement for the upcoming year.<sup>18</sup>

The final rule would extend the effective date of new stress capital buffer requirements from October 1 to January 1 of each year. To ensure that the new stress capital buffer requirements only include results based on models that incorporate public feedback, results averaging would not begin until the stress capital buffer requirement effective on January 1, 2029.

#### *FR Y-14 Reporting Requirements*

Both the enhanced transparency and public accountability final rule and the volatility final rule would modify certain elements of the FR Y-14A/Q/M reporting forms. Consistent with the proposals, the final rules would make targeted changes to the FR Y-14A/Q/M reports to collect additional data

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<sup>18</sup> To calculate a firm's stress capital buffer requirement, under the final rule, the Board would (1) average the stress capital declines from the two most recent annual supervisory stress tests, giving equal weight to each; then (2) add the four quarters of planned dividends for the current year; and finally (3) apply, as applicable, the 2.5 percent floor, in that order. Under the final rule, results averaging would generally not apply in the event of a material business plan change.

needed to enhance supervisory models used to conduct the supervisory stress test. The changes would be finalized largely as proposed. The enhanced transparency and public accountability final rule would also remove several items, schedules, and supporting documentation requirements from the FR Y-14A/Q/M reports that are no longer needed to conduct the supervisory stress test.

#### **D. Overview of 2027 Model Changes and Reporting Proposal**

The 2027 model changes and reporting proposal would seek public input for a period of 60 days on a revised noninterest income model designed to better capture heterogeneity across firms. The proposed, revised model was informed by comments received on the models proposed for the 2026 stress test. If finalized, the new model would replace the existing noninterest income model and could take effect for the 2027 stress test.

The proposal would also request comment on FR Y-14A/Q/M revisions that would facilitate future model development or improve risk capture. This information would improve the reporting instructions and enable the Board to assess if future model changes are appropriate.

#### **E. Analysis of Draft Final Rules, Models, and Proposal**

These draft final rules and models, and the model proposal, are not expected to materially change aggregate capital requirements. For example, relative to past results, the model changes adopted in this final package would have reduced aggregate CET1 capital ratio declines under stress by about 25 basis points, on average. The proposed model changes included in the 2027 model changes and reporting proposal would have increased aggregate CET1 capital ratio declines under stress by about five basis points, on average. Further, based on analysis of previous stress test results, the volatility final rule would have lowered average stress capital buffer requirements by three basis points.

The estimated impact of these changes remains 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, staff analysis across a range of conditions shows that capital requirements should remain largely unchanged. Additional details are included in Appendix C.

The cumulative effect of the adopted and proposed model changes included in the enhanced transparency and public accountability final rule and 2027 model changes and reporting proposal are expected to reduce the volatility of annual changes in stress capital buffer requirements by about 35 percent, and by about 50 percent when combined with the volatility final rule.

Finally, the enhanced transparency final rule would reduce FR Y-14A/Q/M reporting burden by approximately 5,600 hours, while the volatility final rule is not expected to impact FR Y-14 reporting burden given the limited number of changes. The 2027 model changes and reporting proposal is estimated to increase reporting burden by approximately 3,500 hours. Accordingly, the package is expected to result in an overall reduction of approximately 2,100 hours.

#### **RECOMMENDATIONS:**

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

## Appendix A: Comparison of Existing Annual Stress Test Dates and Final Rule Dates

| Annual Stress Test Milestone                                                      | Existing Dates                            | Final Rule                                       |
|-----------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------|
| Request public input on material model change prior to implementation             | N/A <sup>19</sup>                         | August 31                                        |
| Public input period length for material model changes                             | N/A                                       | At least 30 days                                 |
| Scenario jump-off date                                                            | December 31                               | December 31                                      |
| Firms subject to Category IV standards opt into stress test in odd-numbered year  | January 15                                | January 5                                        |
| Disclosure of proposed scenarios                                                  | N/A                                       | January 10                                       |
| Public input period length for scenarios                                          | N/A                                       | At least 30 days                                 |
| Disclosure of final scenarios                                                     | February 15                               | February 28                                      |
| Stressed counterparty data submission deadline                                    | April 5                                   | April 5                                          |
| Capital plan submission and company-run stress test deadline                      | April 5                                   | April 30                                         |
| Final model disclosure                                                            | N/A                                       | May 15                                           |
| Results disclosure and preliminary stress capital buffer requirement notification | June 30                                   | June 30                                          |
| Reconsideration deadline                                                          | 15 calendar days after results disclosure | 15 <i>business</i> days after results disclosure |
| Final stress capital buffer requirement disclosure                                | August 31                                 | September 30                                     |
| Stress capital buffer requirement effective date                                  | October 1                                 | January 1                                        |

<sup>19</sup> Previously, the Board’s practice was to publish all material model changes in the annual model methodology document and phase in material model changes over two years. *See, e.g.*, Board, 2025 Supervisory Stress Test Methodology (Jun. 2025), <https://www.federalreserve.gov/publications/files/2025-june-supervisory-stress-test-methodology.pdf>.

## Appendix B: Models For the 2027 Stress Test

- Credit Risk Models: The Board proposed several changes to enhance and simplify the retail and wholesale models. These changes will be adopted largely as proposed.
  - *Revenue and loss-sharing agreements*: The Board solicited feedback on modeling the effects of revenue and loss sharing agreements on credit card accounts. As recommended by commenters, the final models incorporate effects of these agreements, compared to the proposed models, which incorporated effects of only a subset of these agreements.
  - *Credit card exposure at default*: The proposed model would have reduced defaulted balances by an estimate of interest and fee accruals to avoid overstating credit losses on credit card portfolios. Several commenters recommended increasing this estimate. The final models would increase the estimate, though by less than recommended by the commenters.
  - *Collateral treatment*: Compared to the proposed model, the final Other Consumer Model adds a parameter to increase sensitivity to the presence of collateral. This has the effect of increasing projected losses on unsecured other consumer loans while decreasing projected losses on secured other consumer loans.
- Securities Model:
  - *Reinvestment assumption*: The Board proposed to enhance the conceptual soundness of the securities loss model by incorporating more appropriate reinvestment assumptions on different securities. This change was supported by commenters and would be largely adopted. In the final models, portfolio aging and reinvestment are incorporated for all securities, replacing the constant portfolio assumption utilized in the proposal for the minority of security holdings which are not U.S. Treasuries or Agency MBS.
- Market Risk Models:
  - *Increased risk sensitivity for FVO models*: In consideration of comments, the final models would also adopt more granular risk sensitivity into the fair value option models (e.g., adopting more risk-sensitive credit spread widening assumptions for retail mortgages and more risk-sensitive loss given default assumptions for corporate and commercial real estate loans).
  - *Largest Counterparty Default exclusions*: The Board proposed to use firms' internal ratings to determine which sovereign counterparties would be excluded from being a firm's largest counterparty for purposes of the largest counterparty default (LCPD) component. One commenter expressed concern with this approach as it would introduce subjectivity in the model and could result in inconsistent outcomes across firms. To improve transparency and consistency in model outcomes, the final LCPD model would use external ratings (i.e., S&P, Fitch, and Moody's) to determine which sovereign counterparties are ineligible to be included as the largest counterparty for purposes of the LCPD component.
- Operational Risk Model: The Board proposed to improve the measure of operational risk exposure and enhance conceptual soundness. These changes would be adopted as proposed.
- Pre-Provision Net Revenue (PPNR) Models: The final models 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. The final package would adopt an interim noninterest income model for the 2027 stress test, and also propose a long-term noninterest income model for the 2027 stress test. If the long-term model is finalized in time for the 2027 stress test, then it would replace the interim model. The net interest income and noninterest expense models would be finalized as proposed for the 2027 stress test, with certain revisions.
  - *Net interest income models*: The Board proposed new interest income and interest expense models. Commenters were generally supportive of these proposed models and suggested targeted revisions. Staff

recommend adopting some of these revisions, such as changing the base rate assumption for fixed-rate wholesale loans in the interest income on loans model, and otherwise recommend adopting as proposed.

- *Noninterest income models*: The Board proposed new noninterest income models. Commenters were not supportive of the proposed noninterest income models, and recommended that the Board adopt an adjusted versions of the proposed models as an interim solution until new models could be proposed. Staff recommend an approach consistent with these comments. These interim models would incorporate certain revisions suggested by commenters, including segmentation by firm type, such as global systemically important bank (GSIB) or foreign banking organization (FBO). The proposed, long-term models would differ in structure from the interim models. As suggested by commenters, the proposed models would better incorporate heterogeneity across firms by adopting structural approaches where appropriate and utilizing data more directly related to each revenue activity. The Board would seek public input on these long-term models prior to its implementation in the stress test.
- *Noninterest expense model*: The Board proposed a new noninterest expense model, and commenters made several suggestions to revise this model. Staff recommend adopting this model with some of the suggested revisions, such as using more recent firm projections for estimation, which would better capture more recent improvements in modeling, as applicable. In addition, the revised approach would incorporate several enhancements to anchor each firm's projected efficiency ratio to its own recent experience, thereby better reflecting current firm-specific business practices, which would also address concerns raised by commenters regarding incorporation of business heterogeneity.
- Aggregation Models: The Board did not propose any changes to its aggregation models. However, in consideration of comments, the final models would update the calculation of the valuation allowance for deferred tax assets to better align with U.S. GAAP accounting practices.

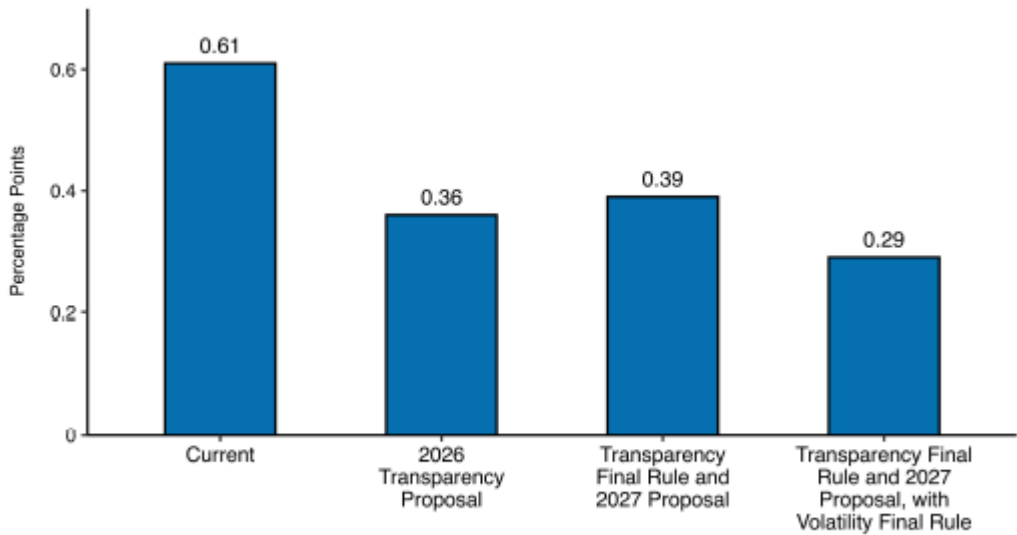
Appendix C: Estimated Impact of Changes to Models on the Capital Ratio Decline<sup>20</sup> in Stress Test Results

Table 1: Stress Test Capital Ratio Decline Impact of Changes to Model

|         |         |          | Impact of Model Changes Relative to the Proposal |            |                |          |      |             |                 | Model Changes<br>Proposed for<br>2027 |                 |
|---------|---------|----------|--------------------------------------------------|------------|----------------|----------|------|-------------|-----------------|---------------------------------------|-----------------|
| Year    | Current | Proposed | Credit Risk                                      | Securities | Market<br>Risk | Ops Risk | PPNR | Aggregation | 2026<br>Package | PPNR                                  | 2027<br>Package |
| 2026    | 1.6     | 1.8      | -0.1                                             | 0.1        | 0.0            | 0.0      | -0.1 | -0.2        | 1.5             | 0.0                                   | 1.5             |
| 2025    | 1.7     | 1.6      | 0.0                                              | 0.1        | 0.0            | 0.0      | -0.1 | -0.2        | 1.4             | 0.0                                   | 1.4             |
| 2024    | 2.5     | 2.1      | 0.0                                              | 0.0        | 0.0            | 0.0      | 0.1  | -0.1        | 2.1             | 0.1                                   | 2.2             |
| Average | 1.9     | 1.8      | 0.0                                              | 0.0        | 0.0            | 0.0      | 0.0  | -0.1        | 1.7             | 0.0                                   | 1.7             |

Note: The current decline does not match the published aggregates as it includes the full phase-in of model adjustments for those stress test cycles. Estimates are based on a balanced sample of 30 firms subject to the 2024 stress test.

Figure 1: Average Absolute Value Change in SCB Requirements (2021-2026)<sup>21</sup>



<sup>20</sup> The volatility rule is not expected to materially affect aggregate capital requirements.

<sup>21</sup> The results of the 2026 stress test did not inform stress capital buffer requirements.