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Welcome Remarks

by

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(via pre-recorded video)

at

2025 Federal Reserve Stress Testing Research Conference

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Welcome to the 2025 Federal Reserve Stress Testing Research Conference.¹

Although I am not able to join you in person today, I would like to take a moment to acknowledge the important contributions this conference has made and continues to make in promoting research on the stress testing process and related issues.

I would like to start by thanking the organizing committee, our presenters, and all of the participants joining us at the Federal Reserve Bank of Boston at our Stress Test Research Conference. This event brings together academics, regulators, and industry experts, encouraging broad collaboration and rigorous discussion.

This conference marks a critical and necessary evolution in the Federal Reserve's stress test program. Stress testing is an important supervisory tool that was initially designed to maintain financial stability and establish binding capital requirements for the largest banks. As the role of stress testing must evolve, we have shifted our focus to enhance the reliability and credibility of both the process and its outcomes. Going forward, the Federal Reserve is committed to transparency and ensuring that public input and stakeholder comment enhance the program over time.

Stress testing remains an important element of the Board's capital framework and supervisory program for large banks. To promote public accountability and achieve robust outcomes, the Board plans to solicit public comment on various stress testing reforms later this month. This proposal seeks to ensure that any substantive changes are informed by public input prior to their adoption.

¹ The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee

These actions are part of a broader set of capital-related measures designed to right-size and recalibrate the regulatory framework to better balance safety and soundness with the role of the financial system in promoting economic growth. The Board intends to leverage public and industry perspectives to further improve the stress test.

The stress testing package will provide detailed model descriptions, including assumptions and limitations for each model, as well as the rationale behind key modeling choices. The proposal will invite public comment on the specific modeling changes that the Board plans to implement for the 2026 stress test, including proposed changes that address the sensitivity of pre-provision net revenue projections to recent bank performance, and to improve the design and related assumptions for certain models including credit losses, operational risk and securities.

The second aspect of the proposal seeks comment on scenario design for the stress test, particularly the guides governing the variables included in the severely adverse macroeconomic scenario. The proposal would also include details on the macroeconomic model used to formulate the paths of the variables that are not determined by a guide for a given annual scenario. In addition, the proposal would cover disclosure of the global market shock framework, including the logic behind shock severity, liquidity horizons and the description of the models generating these shocks.

Third, the proposal would solicit public comment on the severely adverse scenario that the Board intends to use for the 2026 stress test.

While I have attempted to provide a high-level summary of the proposal, it is not possible to capture the depth and breadth of the changes. We look forward to working with all of our stakeholders to improve our stress test and reduce the year-over-year volatility in the stress testing results.

Before I conclude, I would like to recognize the dedication and professionalism of our stress testing staff at both the Board and Reserve Banks. The pending comprehensive stress testing package reflects countless hours of diligent work, perseverance, and collaboration. This robust and thorough proposal would not have been possible without the extraordinary commitment of all involved. I am grateful for your contributions and would like to formally acknowledge your essential role in this important work.

Thank you to our attendees for your continued partnership and dedication to research and collaboration in stress testing. Your engagement helps us build a safer and more resilient financial system.