



# 2026 Supervisory Stress Test Methodology

February 2026



The Federal Reserve promotes a safe, sound, and efficient banking system that supports the U.S. economy through its supervision and regulation of domestic and foreign banks. As part of its supervision efforts, the Federal Reserve annually conducts a supervisory stress test. The stress test assesses how large banks are likely to perform under hypothetical economic conditions.<sup>1</sup>

## Model Methodology

In October 2025, the Board requested comment on proposals to enhance the transparency and public accountability of the annual supervisory stress test.<sup>2</sup> The proposals and accompanying documentation describe several aspects of the stress test, including the models used by the Board to conduct the stress test and proposed changes to those models relative to previous years' tests.

While the Board reviews public feedback on the stress test models, the Board will generally use the models as implemented in the 2025 stress test to run the 2026 stress test, with a few exceptions described below.<sup>3</sup> For details on those models, refer to the *2025 Supervisory Stress Test Methodology* document published in June 2025.<sup>4</sup> This approach will facilitate a clear and orderly process for the 2026 stress test while the Board obtains feedback from the public on the proposed models.

<sup>1</sup> U.S. bank holding companies, covered savings and loan holding companies, and intermediate holding companies of foreign banking organizations with \$100 billion or more in assets are subject to the Federal Reserve Board's supervisory stress test rules (12 CFR pt. 238, subpt. O; pt. 252, subpt. E) and capital planning requirements (12 CFR §§ 225.8; 238.170).

<sup>2</sup> See 90 Fed. Reg. 51,856 (Nov. 18, 2025), <https://www.federalregister.gov/documents/2025/11/18/2025-20211/enhanced-transparency-and-public-accountability-of-the-supervisory-stress-test-models-and-scenarios>.

<sup>3</sup> In November 2025, the Federal Reserve extended the comment period until February 21, 2026, to allow the public more time to analyze the issues and prepare their comments. See Board of Governors of the Federal Reserve System, "Federal Reserve Board Announces It Will Extend until February 21, 2026, the Comment Period on Proposal to Improve Stress Test Model and Scenario Transparency and Accountability," news release, November 21, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251121a.htm>.

<sup>4</sup> See Board of Governors of the Federal Reserve System, *2025 Supervisory Stress Test Methodology* (Washington: Board of Governors, June 2025), <https://www.federalreserve.gov/publications/files/2025-june-supervisory-stress-test-methodology.pdf>.

## Model Changes for the 2026 Stress Test

For the 2026 stress test, the Federal Reserve will make the following three notable updates to the models for the supervisory stress test:<sup>5</sup>

1. The Fair Value Option model is a market risk model that projects gains and losses on loans subject to fair value accounting, and the model's projections enter as "other losses/gains" into the Board's calculation of pre-tax net income in the stress test. For the 2026 stress test, this model will be adjusted to adopt lower loss given default (LGD) and loan-equivalent-factor (LEQ) assumptions. The model will assume a constant LGD of 50 percent, which is calibrated to historical loan recovery outcomes. The LEQ for corporate loans will be set at 65 percent to better reflect historical patterns of utilization rates.
2. The Largest Counterparty Default model is a market risk model that will be adjusted to exclude from the selection of a firm's largest counterparty sovereign entities with a credit rating equivalent to "AA-" and above based on firms' internal ratings, as well as the United States.<sup>6</sup> If there are discrepancies among firms' internal ratings, the Board will use the median of the internal ratings. This change is intended to generate stressed projections that more appropriately reflect firms' risk profiles.<sup>7</sup>
3. The Domestic Credit Card model is a credit risk model that includes an adjustment to account for revenue and loss sharing agreements. Such agreements are arrangements with private entities to share a portion of domestic bank card revenues, losses, and/or profits. For the 2026 stress test, the Board will update the adjustment to cover more types of agreements, such as agreements that share profits, in addition to the agreements to share both revenues and losses that were considered in previous years. Additionally, the Board will tailor the adjustment to more accurately reflect the form in which provisions are shared under the terms of the agreements.

Additionally, one change that was partially phased in as an adjustment to the 2025 stress test will be fully implemented for the 2026 stress test.<sup>8</sup> In the 2025 stress test, the compensation model

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<sup>5</sup> The Fair Value Option and Largest Counterparty Default adjustments are consistent with the Board's letter to Morgan Stanley determining to recalculate its stress capital buffer requirement. See Board of Governors of the Federal Reserve System, "Response to request for reconsideration of Morgan Stanley's preliminary stress capital buffer requirement, pursuant to the Board's capital plan rules," letter to Edward Pick (Morgan Stanley), September 30, 2025, <https://www.federalreserve.gov/supervisionreg/files/reconsideration-process-response-letter-20250930.pdf>.

<sup>6</sup> The Largest Counterparty Default model applies to firms with substantial trading or custodial operations and captures the loss each firm would experience if its largest counterparty were to default under the hypothetical global market shock component of the severely adverse scenario.

<sup>7</sup> Previously, the Board excluded only certain sovereign entities (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), along with affiliates of intermediate holding companies (IHCs), certain multinational development banks and supranational entities (International Bank for Reconstruction and Development, International Monetary Fund, Bank for International Settlements, European Commission, and European Central Bank), and qualifying central counterparties. These qualifying central counterparties, IHC affiliates, and multilateral development banks will continue to be excluded for the 2026 stress test.

<sup>8</sup> See Appendix A: Model Changes for the 2025 Stress Test, Board of Governors of the Federal Reserve System, 2025 Supervisory Stress Test Methodology (Washington: Board of Governors, June 2025), <https://www.federalreserve.gov/publications/files/2025-june-supervisory-stress-test-methodology.pdf>.

was adjusted to condition the projections of compensation expenses on the share of compensation paid in commissions and stocks. This enhancement will be fully implemented for the 2026 stress test and is intended to account for heterogeneity of business lines and compensation practices across firms.<sup>9</sup>

In addition, an assessment based on ongoing model monitoring and targeted data collected through special collections will inform whether any data or immaterial model adjustments are warranted in the 2026 stress test. The Board will provide descriptions of any additional adjustments made for the 2026 stress test in the 2026 stress test results disclosure.

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<sup>9</sup> Total compensation is composed of salaries, variable compensation, and employee benefits. Previously, in the 2024 stress test, the model for compensation expenses was adjusted to explicitly condition the projections of compensation expenses on the share of cash variable compensation.