

**Meeting Between Staff of the Federal Reserve System and Representatives of the Bank Policy Institute (BPI), Financial Services Forum (FSF), Securities Industry and Financial Markets Association (SIFMA), and Several Banking Organizations**  
**March 12, 2026**

**Participants:** Julie Anthony, Tara Hofbauer, Leah Kazar, Hillel Kipnis, Asad Kudiya, Emma Lucas, Doriana Ruffino, Rye Salerno, John Simone, and Takashi Yoshida (Federal Reserve Board); Patrick deFontnouvelle (Federal Reserve Bank of Boston); Jeremy Brizzi and Ronel Elul (Federal Reserve Bank of Philadelphia); Nika Lazaryan, Fabrizio Marodin, and Dengli Yang (Federal Reserve Bank of Richmond); and Sara Holm and Jason Schmidt (Federal Reserve Bank of Minneapolis)

Sarah Flowers, Scott Frame, and Brett Waxman (BPI); Matthew Greene, Benjamin Weiner, and Dan Wolf (Sullivan & Cromwell LLP); Sean Campbell and Emma Tong (FSF); Guowei Zhang (SIFMA); Claire Gasperetti and David Willis (Bank of America); Nicholas Gee and Ozgur Kaya (Barclays); Nicholas Davis (Capital One); Rick Gams, Niko Kruger, and Yash Priyank (Citigroup); Joseph Hwang, Asad Naqvi, and Sean Thompson (Goldman Sachs); Robert Lazovick and Frederik Schlosser (JPMorgan); Sean Egan and Brandon Von Feldt (Morgan Stanley); Blake Laughter (Northern Trust); David Annis and Guangyi Ma (Truist); Ryan Thompson and Stanton Vandenberg (US Bancorp); and Lane Teller (Wells Fargo)

**Summary:** Staff of the Federal Reserve System met with representatives and counsel of BPI, FSF, SIFMA, and several banking organizations regarding the Board's notice of proposed rulemaking to enhance the transparency and public accountability of its annual stress test, as well as the Board's request for comments on the scenarios and models for the upcoming 2026 stress test (stress test proposals). Representatives of BPI, FSF, SIFMA, and several banking organizations discussed their views on the stress test proposals, including the proposed pre-provision net revenue models.



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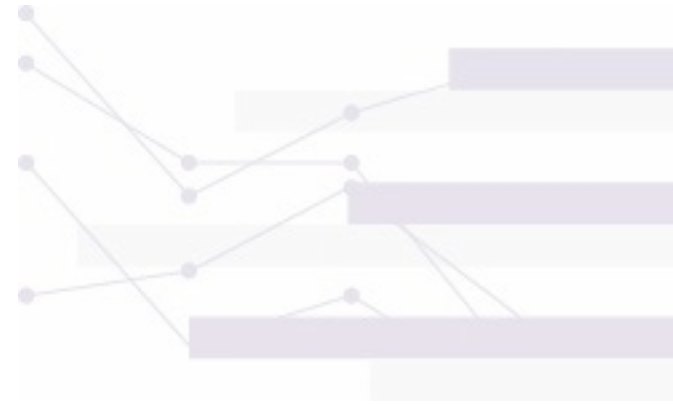


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# Stress Testing: PPNR Models - Noninterest Revenue & Expense

March 12, 2026

# Noninterest Revenue: The Problem

The proposed discount factor models using historical firm stress test submissions would not be appropriate for projecting noninterest revenues:

- Historical stress projections are based on past modeling methodologies that have changed substantially over the past decade and are based on historical balance sheets, business lines, risk profiles, and product offerings that may no longer be relevant.
- The historical stress projections do not represent an unbiased assessment of an individual firm's expected performance during stress; these were an outcome of a supervisory process influenced by supervisory guidance and expectations.
- Firms' prior projections are based on each firm's view of its balance sheet evolution during stress and is thus not aligned with the flat balance sheet assumption.
- The use of firm projections raises transparency concerns, as it is not feasible to assess the underlying assumptions that drive the firm projections.
- Historical stress projections for HFS, FVO, and PE include projected losses, while the FRB stress test also projects losses for these portfolios, resulting in a double counting of losses.

# Noninterest Revenue: Recommendations

We recommend that the Federal Reserve completely redevelop and repropose its approach to modeling noninterest revenue.

- Consider sufficiently detailed and granular non-interest revenue categories that appropriately capture the range of different business models, practices, and risk profiles across the industry.
- Be based on granular and specific data which directly relates to the observed empirical behavior of the revenue activity of interest. Overly aggregated data, inaccurate data, or projection-based data should not be employed in the NIR models.
- Be specified either as structural or regression-based models that appropriately capture the full range of behavior in the underlying revenue activity.
- For sales and trading, jointly model net interest income and noninterest revenue.
- Substantively resolve any double-counting of losses in HFS Securities, FVO Loans, and Private Equity exposures.

The redesigned NIR models should be put out for public comment given that they will, by necessity, deviate significantly from both current practice and the proposal.

# Noninterest Revenue: Interim Solution

On an interim and temporary basis, we recommend that the Federal Reserve use a modified version of the proposed historical projection-based discount factor models, with a set of critical adjustments. Critical adjustments:

- Segment the noninterest revenue discount factor models by three distinct firm classifications: U.S. GSIB, Non-GSIB, and FBO.
- Use a lookback period that is significantly shorter than 12 quarters when computing the discount factor for several components.
- Not use a discount factor model to project the “Miscellaneous” component; instead project a constant level over the nine-quarter stress period with a zero floor.
- Resolve the double-counting of losses in HFS/FVO Loans, and PE exposures.

# Noninterest Expense: The Problem

The proposed efficiency ratio models are not appropriate for projecting noninterest expenses in the stress test.

- The proposed five-year lookback period would not adequately reflect the most recent experience of the firm given changes in industry cost structures over the last few years.
- Because non-recurring expenses are idiosyncratic and not persistent, these expenses should be deducted or otherwise addressed accordingly.
- Efficiency ratio modeling would not provide for sufficient heterogeneity across firms, nor would it include any lag effects.

# Noninterest Expense: Recommendation

- **Treatment of Fixed Costs:** For noninterest expenses that do not vary meaningfully with the economic cycle, such as fixed compensation, we recommend that these be held flat (based on a trailing four-quarter average) at the jump-off level throughout the nine-quarter projection horizon.
- **Treatment of Other Variable Expenses:** For variable pay (including stock and cash-based compensation and commissions), the model should reflect that as economic drivers worsen and/or revenues decline these expenses would also be expected to decline.
  - Commission income would generally be linked to investment management fees through a commission to fee ratio.
  - Stock and cash-based pay would be linked to both worsening macroeconomic drivers and declining revenues.
  - Other non-compensation expenses that vary with the economic cycle (e.g., marketing expenses) would require additional data for the model to project these using relevant economic drivers and/or revenues.