BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

Review of Comments and Summary of Changes to the Proposed 2026 Stress Test Scenarios

February 2026

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Review of Comments on Proposed 2026 Stress Test Scenarios

In October 2025, the Board of Governors of the Federal Reserve System (Board) requested comment on the scenarios it proposed to use to conduct the 2026 supervisory stress test.[1] The Board received 5 comments on the proposal. The comments received by the Board represent a range of views and include thoughtful engagement with the proposal.

This document summarizes the comments received on the proposed 2026 supervisory stress test scenarios. Each section of this document is organized according to the components of the final 2026 supervisory stress test scenarios, and includes a summary of the comments received and an explanation of any changes to the components described in each section. Documentation describing the proposed 2026 supervisory stress test scenarios is available at the following link: https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm.

The Board separately requested comment on its proposal to enhance the transparency and public accountability of the Board's stress tests (the Enhanced Transparency and Public Accountability proposal).[2] The Board will respond to any comments on aspects of the Enhanced Transparency and Public Accountability proposal together with all comments received on that proposal.

I. Baseline Scenario

The proposed 2026 supervisory stress test baseline scenario for U.S. real activity, inflation, and interest rates was similar to consensus projections from the September 2025 Blue

[1] *See* Board, Proposed 2026 Stress Test Scenarios (October 2025), available at https://www.federalreserve.gov/aboutthefed/boardmeetings/2026-proposed-supervisory-stress-test-scenarios-20251024.pdf.

[2] *See* Board, Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL, 90 FR 51856 (November 18, 2025).

Chip Financial Forecasts released on August 29, 2025, and the August 2025 Blue Chip Economic Indicators released on August 11, 2025.[3] The long-term components of the baseline scenario for U.S. real activity, inflation, and interest rates were similar to the March 2025 Blue Chip release. The proposed baseline scenario paths for the other scenario variables were constructed according to the macro model for Stress Testing[4] discussed in the Board's proposed 2025 Policy Statement on the Scenario Design Framework for Stress Testing (proposed 2025 Scenario Design Policy Statement).[5] The proposed baseline scenario featured moderate economic growth. This proposed scenario is not a forecast of the Federal Reserve.

The final 2026 baseline scenario for U.S. real activity, inflation, and interest rates is similar to consensus projections from the January 2026 Blue Chip Financial Forecasts released on December 30, 2025, and the January 2026 Blue Chip Economic Indicators released on January 9, 2026.[6] The long-term components of the final baseline scenario for U.S. real activity, inflation, and interest rates are similar to the October 2025 Blue Chip release.

The following subsections describe the values for the proposed baseline scenario, summarize the comments received on each component, and address any comments received.

A. General Comments

As described below in section V, one commenter raised questions about how the trajectories for several variables, such as GDP, disposable income, inflation, and the 3-month

[3] *See* Wolters Kluwer Legal and Regulatory Solutions, Blue Chip Economic Indicators and Blue Chip Financial Forecasts.

[4] *See* Board, Supervisory Stress Test Documentation – Macroeconomic Model Guide (October 2025), available at https://www.federalreserve.gov/supervisionreg/files/macroeconomic-model-guide.pdf.

[5] The proposed 2025 Scenario Design Policy Statement is included in the Board's Enhanced Transparency and Public Accountability proposal. *See supra* note 2.

[6] *Id*.

U.S. Treasury securities rate, are produced through the Board's macro model for Stress Testing. The commenter explained that they could not replicate the Board's proposed values for these and other variables based on the model documentation provided. This comment is addressed below in section V. For each of the variable values described below, the final values for these variables were determined according to the process described in section V.

Additionally, one commenter raised questions about how the Board would determine the final jump-off values for each year's scenarios, including the 2026 scenario. This comment is addressed below in section VI.

No other comments were received on the Board's proposed baseline scenario. A summary of changes in the final 2026 baseline scenario is described in this section below.

B. Unemployment Rate

In the proposed 2026 baseline scenario, the unemployment rate would move up to 4.6 percent in the first quarter of 2026, and would stay at that level until the third quarter of 2026, before gradually declining to 4.2 percent in the third quarter of 2028, where it would remain through the end of the scenario.

In the final 2026 baseline scenario, the unemployment rate moves up to 4.6 percent in the first quarter of 2026, and stays at that level through the third quarter of 2026, before gradually declining to 4.2 percent by the end of the scenario.

C. Real GDP

In the proposed 2026 baseline scenario, real GDP growth would rise from 0.8 percent in the fourth quarter of 2025 to 2 percent by the first quarter of 2027 and would hover around that rate for the rest of the scenario.

In the final 2026 baseline scenario, real GDP growth rises from 1 percent in the fourth quarter of 2025 to 2.1 percent by the first quarter of 2027 and hovers around that rate for the rest of the scenario.

D. Inflation (Annualized CPI)

In the proposed 2026 baseline scenario, inflation (annualized CPI), measured as the quarterly change in the CPI and reported as an annualized rate, would gradually decline from 3.4 percent at the end of 2025 to 2.2 percent in the first quarter of 2027, where it remains through the end of the scenario.

In the final 2026 baseline scenario, inflation gradually declines from 2.8 percent at the end of 2025 to 2.2 percent in the first quarter of 2028, where it remains through the end of the scenario.

E. 3-Month Treasury

In the proposed 2026 baseline scenario, the 3-month Treasury rate would decrease from 4.0 percent at the end of 2025 to 3.8 percent in the first quarter of 2026, after which it would decline to 3.3 percent in the fourth quarter of 2026. It would remain there through the first quarter of 2028, after which it gradually declines to 3.1 percent through the end of the scenario.

In the final 2026 baseline scenario, the 3-month Treasury rate decreases from 3.7 percent at the end of 2025 to 3.1 percent in the fourth quarter of 2026, and hovers around that level through the remainder of the scenario.

F. 5-Year Treasury

In the proposed 2026 baseline scenario, the 5-year Treasury yield would decrease from 3.9 percent in the fourth quarter of 2025 to 3.8 percent in the first quarter of 2026 and then would decline gradually to 3.6 percent by the end of the scenario.

In the final 2026 baseline scenario, the 5-year Treasury yield hovers around 3.7 percent, its value in the fourth quarter of 2025, until the fourth quarter of 2027, when it ticks up to 3.9 percent. It then remains at that level for the rest of the scenario.

G. 10-Year Treasury

In the proposed 2026 baseline scenario, the 10-year Treasury yield would decrease from 4.3 percent in the fourth quarter of 2025 to 4.2 percent in the first quarter of 2026 and then would decline gradually to 3.9 percent by the end of the scenario.

In the final 2026 baseline scenario, the 10-year Treasury yield hovers around 4.1 percent, its value in the fourth quarter of 2025, for the duration of the scenario.

H. Prime Rate

In the proposed 2026 baseline scenario, the prime rate would follow a path similar to short-term interest rates, but would sit at a level 3 percentage points higher, reflecting the typical spread between the prime rate and the top of the federal funds target range.

In the final 2026 baseline scenario, the prime rate follows a path similar to short-term interest rates, but sits at a level 3 percentage points higher, reflecting the typical spread between the prime rate and the top of the federal funds target range.

I. Mortgage Rates

In the proposed 2026 baseline scenario, mortgage rates would decline gradually from 6.4 percent at the end of 2025 to 5.5 percent by the fourth quarter of 2028, where they remain for the rest of the scenario.

In the final 2026 baseline scenario, mortgage rates decline gradually from 6.2 percent at the end of 2025 to 5.7 percent by the third quarter of 2028 where they remain for the rest of the scenario.

J. BBB Yields

In the proposed 2026 baseline scenario, yields on BBB-rated corporate bonds would hover around their level in the fourth quarter of 2025 throughout the scenario.

In the final 2026 baseline scenario, yields on BBB-rated corporate bonds rise gradually from 5.1 percent in the fourth quarter of 2025 to 5.6 percent in the fourth quarter of 2027 and remain at that level through the end of the scenario.

K. BBB Spread (Against 10Y)

In the proposed 2026 baseline scenario, the spread between yields on BBB-rated bonds and yields on 10-year Treasury securities would increase gradually to a level of 1.6 percentage points by the third quarter of 2027 and remain around that level through the rest of the scenario.

In the final 2026 baseline scenario, the spread between yields on BBB-rated bonds and yields on 10-year Treasury securities increases gradually from 1 percentage point in the fourth quarter of 2025 to a level of 1.5 percentage points by the first quarter of 2028 where it remains through the rest of the scenario.

L. Equity Prices

In the proposed 2026 baseline scenario, equity prices would increase about 4.3 percent per year throughout the scenario.

In the final 2026 baseline scenario, equity prices increase between about 4 and 5 percent per year throughout the scenario.

M. VIX

In the proposed 2026 baseline scenario, equity market volatility, as measured by the VIX, would increase gradually from 23 percent in the fourth quarter of 2025 to 25 percent in the third quarter of 2027, where it remains through the end of the scenario.

In the final 2026 baseline scenario, the VIX declines from 26 percent in the fourth quarter of 2025 to 22 percent in the second quarter of 2026, after which it gradually increases to 25 percent by the end of the scenario.

N. House Prices

In the proposed 2026 baseline scenario, nominal house prices would decline somewhat through the first quarter of 2027 before gradually increasing through the remainder of the scenario.

In the final 2026 baseline scenario, nominal house prices increase gradually for the duration of the scenario.

O. Commercial Real Estate Prices

In the proposed 2026 baseline scenario, commercial real estate prices would increase about 4.3 percent per year.

In the final 2026 baseline scenario, commercial real estate prices increase between about 4 and 5 percent per year.

P. International Variables

In the proposed 2026 baseline scenario, real GDP growth in developing Asia would have increased from 2.8 percent to 5.6 percent in the third quarter of 2026, after which it would gradually decline to 4.1 percent in the third quarter of 2027. It would then fluctuate between 4.8 percent and 4.2 percent through the end of the scenario. Real GDP growth in the euro area would have increased from 0.3 percent at the end of 2025 to 2 percent by the third quarter of 2026. It would then decline gradually to 1.1 percent in the second quarter of 2027, after which it would fluctuate between 1.2 percent and 1.5 percent through the end of the scenario. Real GDP growth in the United Kingdom would have increased from 0.4 percent at the end of 2025 to 1.8 percent by the third quarter of 2026, after which it would gradually decline to 1.1 percent in the

second quarter of 2027. It would then fluctuate between 1.2 percent and 1.4 percent through the end of the scenario. GDP growth in Japan begins at negative 0.4 percent in the fourth quarter of 2025 and increases to 1.8 percent in the third quarter of 2026. It would then gradually decline to 0.2 percent through the third quarter of 2027, after which it would hover between 0.4 percent and 1.1 percent through the end of the scenario. Consumer price inflation in the euro area would increase from 1.8 percent to 2 percent in the second quarter of 2027 and then hovers around that level for the rest of the scenario. Consumer price inflation in the United Kingdom would decline from 2.7 percent to 2.1 percent in the fourth quarter of 2026 and then hovers around that level through the end of the scenario. Inflation in Japan would have increased from 1.8 percent in the fourth quarter of 2025 to 2.4 percent in the second quarter of 2028, where it would remain through the end of the scenario. The inflation rate in developing Asia would have increased gradually from 1.3 percent to 2.2 percent by the third quarter of 2027 and then hover around there for the rest of the scenario.

In the final 2026 baseline scenario, real GDP growth in developing Asia increases from 3.7 percent at the end of 2025 to 5.2 percent in the third quarter of 2026, after which it gradually declines to 3.9 percent in the second quarter of 2027. It then fluctuates between 3.9 percent and 4.6 percent through the end of the scenario. Real GDP growth in the euro area increases from 0.5 percent at the end of 2025 to 1.7 percent by the third quarter of 2026. It then declines gradually to 1.3 percent in the third quarter of 2027 and hovers around that level through the end of the scenario. Real GDP growth in the United Kingdom increases from 0.7 percent at the end of 2025 to 1.4 percent by the third quarter of 2026. It then declines to 1.3 percent in the first quarter of 2028 and remains at that level through the end of the scenario. GDP growth in Japan increases from 0.6 percent in the fourth quarter of 2025 to 0.9 percent in the second quarter of

2026. It then gradually declines to 0.6 percent by the second quarter of 2028 and hovers around that level through the end of the scenario. Consumer price inflation in the euro area increases from 1.6 percent in the fourth quarter of 2025 to 2 percent in the second quarter of 2027 and then hovers around that level for the rest of the scenario. Consumer price inflation in the United Kingdom declines from 2.8 percent in the fourth quarter of 2025 to 2 percent in the fourth quarter of 2026 and then hovers around that level through the end of the scenario. Inflation in Japan decreases from 2.1 percent in the fourth quarter of 2025 to 1.8 percent in the second quarter of 2026, and hovers around that level for the remainder of the scenario. The inflation rate in developing Asia increases gradually from 1 percent in the fourth quarter of 2025 to 2.1 percent by the third quarter of 2028 and remains there for the rest of the scenario.

II. Severely Adverse Scenario

The proposed 2026 severely adverse scenario was characterized by a severe global recession triggered by an abrupt decline in risk appetite that causes substantial declines in risky asset prices and declines in risk-free interest rates. During the first months of this proposed scenario, financial market functioning is impaired, leading to substantial additional volatility. Those disruptions spill over into large reductions in household demand for goods and services and significantly reduce employment and business investment. The low levels of risk appetite and the declines in income and wealth persist and lead to a protracted recession in the United States and abroad. This proposed scenario is a hypothetical scenario designed to assess the strength and resilience of banks and does not represent a forecast of the Federal Reserve.

The following subsections describe the values for the proposed severely adverse scenario, summarize the comments received on each component, and address any comments received.

A. Comments on the Character and Design of the Proposed 2026 Severely Adverse Scenario

The Board uses the severely adverse scenario to conduct the supervisory stress test. The severely adverse scenario is a hypothetical severe global recession comprised of a set of conditions that affect the U.S. economy or the financial condition of firms subject to the stress test, and includes the global market shock component for applicable firms.

The Board received comments on the general character of the proposed severely adverse scenario. While no commenters proposed that the Board should adopt a fundamentally different type of scenario, one commenter stated that the proposed 2026 severely adverse scenario and global market shock components were overly severe and implausible given current market dynamics. In particular, and as described in the sections below, the commenter stated that values for certain variables were too severe, and that the individual variables within the proposed 2026 scenario would interact in an implausible manner. This commenter recommended that the individual variables should interact in a coherent manner, suggesting that the Board should consider historical precedent not only in selecting individual variable values, but in the broader design of the scenario. To avoid procyclicality, the commenter recommended that asset classes in the early stage of recovery be subjected to smaller shocks, and further stated that the calibration of shocks should reflect the current level of the relevant variables.

The severity of the proposed and final 2026 severely adverse scenario was informed by historical experience, the existing guides for the unemployment rate and house prices in the 2019 Scenario Design Policy Statement,[7] and the Board's policy in setting the other values in this scenario as set forth in that policy statement.[8] The Board also referenced how these variables

[7] *See* 12 CFR 252, App'x A, section 4.2.2.

[8] *See* 12 CFR 252, App'x A, section 4.2.3.

would be established under the Board's proposed 2025 Scenario Design Policy Statement, which generally provides more detailed and prescriptive guides for these other variables, as well as scenario design principles for setting these variables.[9] Finally, the Board considered the statutory and regulatory purposes of the supervisory stress test, to help ensure that banks are sufficiently capitalized to withstand stress under a range of market outcomes.[10]

While the Scenario Design Policy Statement establishes that the Board's scenario design process is informed by historical experience, the Board's scenario design process recognizes that "historical relationships between macroeconomic variables could change over time"[11] and that the scenario should be forward-looking, "introduce[ing] elements outside of the realm of historical experience into the supervisory stress test."[12]

The Board has determined that the aggregate severity of the final 2026 scenario is appropriate to help ensure that large banks are sufficiently capitalized and able to lend to households and businesses even in a severe recession. Setting a particular aggregate severity level for several variables is supported by the available academic literature, and while it deemphasizes salient risks in individual stress test scenarios, it increases predictability of scenarios, and helps promote the stability of the stress test scenarios year-over-year.[13]

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[9] *See* proposed 2025 Scenario Design Policy Statement.

[10] *See* 12 U.S.C. 5365(i)(1)(A).

[11] 12 CFR 252, App'x A, section 3.1(d).

[12] 12 CFR 252, App'x B, section 1.2(b). *See also* section 2.4(a): "The supervisory scenarios may potentially incorporate events that have not occurred historically. It is not necessarily consistent with the purpose of a stress testing exercise to assume that the future will be like the past." These design principles are also consistent with those more detailed expectations described in the proposed 2025 Scenario Design Policy Statement.

[13] *See* E. Afanasyeva et al., *Evaluating Empirical Regularities in Variable Comovement in Stress Test Scenarios,* FEDS Notes (Sep. 19, 2025),

The final 2026 scenario variables resemble conditions that would characterize post-war U.S. recessions, including the 2007-2009 financial crisis.[14] While the co-occurrence of stress across several variables within the final severely adverse scenario may not resemble a specifically observed post-war U.S. recession, the Board recognizes that recessions have not been identical. The Board also assessed additional data that has become available following the publication of the proposed 2026 scenario, and determined that it was appropriate to set the severity of the scenario based on the original calibration of values in the upper one-third of the proposed ranges for the scenario variables, after they are adjusted for incoming data.[15] In independently determining the final values of the severely adverse scenario for the final 2026 scenarios, the Board carefully considered comments about the severity of the individual variables and the aggregate severity of the variables, as described in this section II. The paths of variables are in line with the Board's stress testing principle of conservatism that guides the Board's development of the supervisory stress test,[16] and would also be consistent with the design principles outlined in the Board's proposed 2025 Scenario Design Policy Statement.[17]

Finally, the Board received comments on the proposed 2025 Scenario Design Policy Statement, including with respect to the overall design of the stress test scenarios and the

https://www.federalreserve.gov/econres/notes/feds-notes/evaluating-empirical-regularities-in-variable-comovement-in-stress-test-scenarios-20250919.html, and citations within.

[14] *Id*.

[15] The Board's process for adjusting the proposed 2026 scenario variable paths as incoming data became available was described in the proposed 2026 scenario. *See* "Methodology to Update the Scenarios to Incorporate Additional Data Releases" in the Board's proposed 2026 scenarios, available at https://www.federalreserve.gov/publications/files/2025-stress-test-scenarios-20250205.pdf.

[16] *See* section 1.6 of the Board's Stress Testing Policy Statement, 12 CFR 252, App'x B.

[17] *See* section 4.2.2(f) of the proposed 2025 Scenario Design Policy Statement, 90 FR 51856, 51946 (November 18, 2025).

formation of the guides for certain macroeconomic variables. The Board will consider these comments together with any other feedback from the public on issues in relation to any finalized amendments to the Board's Scenario Design Policy Statement. The comment deadline for such input is February 21, 2026.

B. Unemployment Rate

In the proposed 2026 severely adverse scenario, the unemployment rate would have climbed to a peak of 10 percent in the third quarter of 2027, a 5.5 percentage point increase relative to its fourth-quarter 2025 level. The unemployment rate would have reached its peak in the seventh quarter of the scenario. The final 2026 severely adverse scenario adopts these variable paths as proposed.

For the final 2026 severely adverse scenario, the unemployment rate climbs to a peak of 10 percent in the third quarter of 2027, a 5.5 percentage point increase relative to its fourth-quarter 2025 level. The unemployment rate reaches its peak in the seventh quarter of the scenario.

The Board addressed comments on the severity and plausibility of this aspect of the proposal, in part, in section II.A above. Consistent with the Board's 2019 Scenario Design Policy Statement, the Board set the unemployment rate in consideration of the Board's existing guide for setting the unemployment rate under the severely adverse scenario. This guide specifies that the unemployment rate increases between 3 to 5 percentage points from its initial level over the course of 6 to 8 calendar quarters, or to 10 percent, whichever level is higher. Given current conditions and the jump-off value for the unemployment rate, an increase to 10 percent was determined to be appropriate and is consistent with the guide described in the 2019 Scenario Design Policy Statement, and would also be consistent with the proposed 2025 Scenario Design Policy Statement.

C. House Prices

In the proposed 2026 severely adverse scenario, house prices would have fallen steadily through the fourth quarter of 2027, reaching a trough that is about 29 percent below their level in the fourth quarter of 2025.

For the final 2026 severely adverse scenario, house prices fall steadily through the fourth quarter of 2027, reaching a trough that is about 30 percent below their level in the fourth quarter of 2025. While house prices reach the same trough level as in the proposed scenario, the decline of 30 percent is slightly more than the decline in the proposed scenario owing to the slightly higher jump-off value of the ratio of house prices to disposable personal income in the final scenario.

The Board addressed a comment on the severity and plausibility of this aspect of the proposal, in part, in section II.A above. Consistent with the Board's 2019 Scenario Design Policy Statement, the Board set the value for house prices in consideration of the Board's guide for setting this variable under the severely adverse scenario. This guide specifies the typical decline in the HPI-DPI ratio will be at a minimum 25 percent from its starting value, or enough to bring the ratio down to its Great Recession trough. Given current conditions and the jump-off value for house prices, a decrease to a trough of 30 percent was determined to be appropriate and is consistent with the guide described in the 2019 Scenario Design Policy Statement, and would also be consistent with the proposed 2025 Scenario Design Policy Statement.

D. Mortgage Spreads

In the proposed 2026 severely adverse scenario, the spread between mortgage rates and 10-year Treasury yields would have widened 1.3 percentage points to reach a level of 3.4 percentage points by the third quarter of 2026 before narrowing to a level of about 2.4 percentage points at the end of the severely adverse scenario. The increase in the mortgage

spread in the first quarter of the scenario would have been 62 percent of the total jump-off-to-peak increase in the mortgage spread.

For the final 2026 severely adverse scenario, the spread between mortgage rates and 10-year Treasury yields widens 1.3 percentage points to reach a level of 3.4 percentage points by the third quarter of 2026 before narrowing to a level of about 2.4 percentage points at the end of the severely adverse scenario. While the mortgage spread reaches the same peak level as in the proposed scenario, the increase in the spread of 1.3 percentage points is slightly lower than in the proposed scenario owing to the slightly higher jump-off value of the spread in the final scenario. Relatedly, 62 percent of the jump-off-to-peak increase in the mortgage spread occurs in the first quarter of the scenario.

One commenter, when describing their views of the proposed value for commercial real estate in the severely adverse scenario (discussed below in section II.H), commented that they believed that similar issues of severity and procyclicality would be applicable to the Board's proposed values for mortgage spreads. The commenter did not recommend a specific alternative calibration.

The Board addressed comments regarding the severity and plausibility of the severely adverse scenario in section II.A. Given the established severity of the unemployment rate described above in section II.B, current conditions, and the jump off value for the spread between mortgage rates and 10-year Treasury yields, the final paths were determined to be appropriate.[18] Additional factors considered by the Board included the paths of mortgage

[18] The final path for mortgage spreads is also consistent with the guide described in the proposed 2025 Scenario Design Policy Statement. In the proposed mortgage spreads guide, mortgage spreads would increase between 70 and 160 basis points, to a minimum of 300 basis points.

spreads of past severely adverse scenarios, such as in 2020 and 2021, and that mortgage spreads reached 284 basis points as recently as the second quarter of 2023.[19]

E. Equity Prices

In the proposed 2026 severely adverse scenario, equity prices would have fallen about 54 percent from the fourth quarter of 2025 through the third quarter of 2026. The decline in equity prices in the first quarter of the scenario would have been 67 percent of the total decline in equity, while 17 percent would have occurred in the second quarter.

In the final 2026 severely adverse scenario, equity prices fall about 58 percent from the fourth quarter of 2025 through the third quarter of 2026. The decline in equity prices in the first quarter of the scenario is 67 percent of the total decline in equity prices, while 17 percent occurs in the second quarter.

One commenter cited the proposed calibration of the equity price guide and value for the 2026 stress test and stated that the proposed guides for the guide-based variables do not sufficiently explain the calibration of the peak or trough value, or the trajectory to that value. The commenter stated that the guide would permit a 60 percent maximum decline, which materially exceeds the decline observed during the 2007-2009 financial crisis, and such a three-quarter rate of change would more than double any rate observed historically.

The Board addressed comments regarding the severity and plausibility of the severely adverse scenario in section II.A.

In establishing the paths for equity prices, the Board considered the current conditions and the jump off value for equity prices, as well as historical experience. In particular, several recessions featured a decline of around 50 percent. In particular, the equity price declines in the

[19] *See supra* note 2.

1973 recession and the 2001 recession were 46 percent, whereas the decline in the 2007-2009 financial crisis measured 48 percent.[20] As described above in section II.A, the Board's forward-looking approach to scenario design supports selecting an equity price trough that may exceed historical events when appropriate, which the Board determined to adopt in the final 2026 scenario. In the final 2026 scenario, the equity prices path meaningfully increases scenario severity (i.e., the equity prices decrease is larger) while equity market valuations are relatively high or rising.

As a result, this path helps ensure that firms are resilient to outsized losses if valuations reduce over time or suddenly. It also avoids adding procyclicality to the scenario because it would mechanically suggest a commensurate reduction in severity in a given scenario where equity prices have fallen significantly in the period prior to the jump-off date of the stress test scenarios.

The equity prices path in the final 2026 scenario illustrates how the Board can apply the proposed guide for equity prices that is described in the proposed 2025 Scenario Design Policy Statement to produce a predictable and appropriate severity level for equity prices, as established in this final 2026 scenario.[21]

Additionally, the Board considered one comment that said that the proposed guide for equity prices permits a maximal decline in equity prices that exceed the decline observed during

[20] *See supra* note 2 at 51898.

[21] In the proposed equity prices guide, the equity price value would fall by around 50 percent plus or minus up to 10 percent, depending on the performance of equity prices over the 12-month period prior to the jump-off value. When equity prices have risen over the past 12 months, equity prices will fall to a trough level below the jump-off value of 50 percent plus one half of the percentage increase in equity prices up to a maximum of 10 percent. When equity prices have decreased over the past 12 months, equity prices will fall to a trough level below the jump-off value of 50 percent minus one half of the percentage decrease in equity prices, up to a maximum of 10 percent.

the 2007-2009 financial crisis, and that the paths for equity prices in the proposed 2026 scenario included a trough and pace of the decline in equity prices that considerably exceeds that observed historically. The final specification for the equity prices trough is discussed above.

In terms of the rate of decline in equity prices for the final 2026 scenario, the Board considered historical events in establishing this rate of decline. A frontloaded decline is consistent with the experience of equity prices in the index of leading economic indicators and the empirical evidence from periods of equity market weakness.[22] Across episodes of stock market distress, the average share of the decline realized in the two quarters preceding the trough amounts to 63 percent, with one episode measuring a much higher 88 percent in one quarter (in 1962) and most measuring 50 percent or more for these two quarters (for example, 52 percent in the 2007-2009 financial crisis).[23] The final 2026 scenario specification of the rate of equity price decline aligns with this historical evidence. While the specific combination of the severity of the trough and the trajectory to trough in this final 2026 scenario may not have occurred historically, the final 2026 scenario reflects the Board's forward-looking approach, as discussed in section II.A.

Since the maximal decline portion of this comment relates to the proposed 2025 Scenario Design Policy Statement, and not to the specification for the equity prices path for the final 2026 scenario, the Board will consider that specific portion together with comments on that proposal.

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[22] In the academic literature, stock prices are well-known to be fast-moving or forward-looking variables that react to shocks fast. One prominent example is the study by B. Bernanke, J. Boivin, & P. Eliasz, *Measuring the Effects of Monetary Policy: a Factor-Augmented Vector Autoregressive (FAVAR) Approach,* 120 Q. J. of Econ. 387-422 (2005) (classifying stock market prices as fast-moving variables that respond to shocks on impact). This discussion is also included in the Board's proposed 2025 Scenario Design Policy Statement, *see supra* note 2.

[23] The episodes of stock market distress considered include the recessions of 1969, 1973, 2001, the 2007-2009 financial crisis as well as the stock market decline in 1962.

F. VIX

In the proposed 2026 severely adverse scenario, the VIX, measured as the highest daily closing value per quarter, would have reached a peak of 72 percent in the second quarter of 2026. The proposed VIX level would have remained above 60 percent until the second quarter of 2027.

In the final 2026 severely adverse scenario, the VIX level reaches a peak of 72 percent in the second quarter of 2026.

Similar to other macroeconomic scenario variables, one commenter stated that the Board did not provide sufficient explanation for how it assessed systemic risks and chose to calibrate variables, including the VIX level, near or in the upper one-third of their ranges of severity. Comments regarding the severity and plausibility of the severely adverse scenario are addressed in section II.A.

Additionally, one commenter stated that the proposed VIX level remains at or close to its peak for a longer period over the course of the proposed 2026 scenario than has been observed historically. The commenter explained that this difference was likely due to the linear reversion approach the Board used to determine the peak-to-endpoint path and suggests that an exponential decay approach would be more appropriate.

The Board considered whether an exponential decay approach would be more appropriate. In evaluating this comment, the Board considered that this approach may have a strong historical fit to the data. However, the Board's selection of a linear peak-to-endpoint path is consistent with the convergence properties of the other variables in the final 2026 scenario. Additionally, the recovery of the VIX level is consistent with the broader scenario narrative, which features GDP continuing to fall and the unemployment rate continuing to rise through later quarters of the scenario (sixth and seventh quarters respectively). The Board also considered academic research finding evidence that indicates that the VIX level would remain

elevated when economic activity is weak.[24] The Board will consider the future use of this approach, as described in the proposed 2025 Scenario Design Policy Statement, together with other comments on the Board's Enhanced Transparency and Public Accountability proposal.

As discussed above, the Board expects to address comments on the Board's proposed changes to its stress testing framework together with other comments on the Board's Enhanced Transparency and Public Accountability proposal, including its proposed guide for the VIX level, when any final policy action is completed.

G. BBB Spreads

In the proposed 2026 severely adverse scenario, the spread between yields on BBB-rated bonds and yields on 10-year Treasury securities would have increased 4.4 percentage points by the third quarter of 2026, reaching a level of 5.7 percentage points. Seventy percent of the jump-off-to-peak increase in the BBB spread would have occurred in the first quarter of the scenario.

In the final 2026 severely adverse scenario, the spread between yields on BBB-rated bonds and yields on 10-year Treasury securities increases 4.7 percentage points by the third quarter of 2026, reaching a level of 5.7 percentage points. While the BBB spread reaches the same peak level as in the proposed scenario, the increase in the spread of 4.7 percentage points is somewhat higher than the increase of 4.4 percentage points in the proposed scenario owing to the somewhat lower jump-off value of the spread in the final scenario. Seventy-two percent of the jump-off-to-peak increase in the BBB spread occurs in the first quarter of the scenario.

[24] This approach is also described in the Board's proposed 2025 Scenario Design Policy Statement. *See supra* note 2 at 51900, note 174, citing N. Bloom, *Fluctuations in Uncertainty*, Journal of Economic Perspectives (2014), https://www.aeaweb.org/articles?id=10.1257/jep.28.2.153.

Similar to comments on other macroeconomic scenario variables, one commenter stated that the Board did not provide sufficient explanation for how it assessed systemic risks and chose to calibrate variables, including the BBB spread, near or in the upper one-third of their ranges of severity. Comments regarding the severity and plausibility of the severely adverse scenario are addressed in section II.A.

One commenter asserted that the severity of increases in BBB credit spreads in the proposed 2026 scenario should be moderated to better align with current market evidence and historical maximums, noting that, in the commenter's view, financial system leverage is currently lower than during the 2007-2009 financial crisis. Specifically, the commenter recommended that the BBB spread be set at a 350-basis-point increase to peak at 480 basis points. However, the commenter stated that even this value is itself conservative and disregards post-2007-2009 financial crisis reforms, which in the commenter's view, have reduced bank leverage. The commenter stated that if the Board retains the proposed BBB spread path, it should justify the path in light of the proposed scenario and principles in the Enhanced Transparency and Accountability proposal. The commenter observed that the proposed 2026 scenario compresses a five-quarter increase in the BBB spread observed during the 2007-2009 financial crisis into a three-quarter window in the scenario.

The BBB spread can be understood as a reflection of the assessment by bond market participants of borrowers' ability to service that debt, rather than solely the leverage in the banking system. The final value for the BBB spread is consistent with the broader scenario narrative, which depicts an "abrupt decline in risk appetite that causes substantial declines in

risky asset prices…" and in which "[a]t times during the first months of this scenario, financial market functioning is impaired, leading to substantial additional volatility."[25]

Further, as described above in section II.A, the Board's supervisory scenarios can incorporate events that may not have occurred historically, including with respect to the pace or timing of stress.[26] Yet, the final BBB spread value is similar to the value observed during the 2007–2009 financial crisis, where a 595 basis point spread occurred, as measured by the quarterly average of ICE BofA U.S. Corporate 7-10 Year Yield-to-Maturity Index relative to the 10-year Treasury yield.[27] Weekly measurements from the same time period were even higher, reaching 688 basis points.[28] In consideration of these historical experiences, the Board determined that the final value for the BBB spread was appropriate.

In terms of the pace of stress, the Board considered historical evidence and academic literature, which indicated that the highest share of spread increases tends to occur in the first quarter.[29] As explained in the proposed Scenario Design Policy Statement, in the 2007-2009

[25] *See supra* note 1.

[26] *See supra* note 16.

[27] This data was also presented in the Board's proposed 2025 Scenario Design Policy Statement. *See* 90 FR 51896, 51917 (November 18, 2025).

[28] Weekly average calculated using ICE BofA U.S. Corporate 7-10 Year Yield-to-Maturity Index (ICE Data Indices, LLC) and the yield on 10-year U.S. Treasury notes, constructed by Federal Reserve staff based on the Svensson smoothed term structure model. *See* L. Svensson, *Estimating Forward Interest Rates with the Extended Nelson-Siegel Method,* 3 Sveriges Riksbank Q. Rev. 13 -26 (1995).

[29] In the academic literature, spreads are well-known to be contemporaneous indicators that move the most at the onset of a stress event or crisis. For instance, Krishnamurthy (2025) documents rapid changes in spreads at the onset of financial crises, whereas Bernanke (2005) classify spreads and stock market prices as "fast-moving" variables that respond to shocks on impact. A. Krishnamurthy & T. Muir, *How Credit Cycles across a Financial Crisis,* 80 J. of Fin. 1339-78 (2025) ("Krishnamurthy (2025)"); B. Bernanke et al., *Measuring the Effects of Monetary Policy: A Factor-Augmented Vector Autoregressive (FAVAR) Approach,* 120 Q.J. of

financial crisis, the largest increase in the spread (about 67 percent of the jump-off) occurred in a single quarter following the bankruptcy of Lehman Brothers.[30] A very similar result emerges when considering the Enron/Dotcom stress episode and 1990 bond market stress episode.[31] On average (across all three bond market stress episodes), about 66 percent of the increase to the peak in the spread was realized in a single quarter after the onset of the stress episode. Considering this evidence, and the Board's forward looking scenario design process, the Board determined that it is reasonable to set the BBB spread path as an increase in BBB spread from 100 to 575 basis points occurring over a three-quarter period, rather than the somewhat less rapid spread increase from 165 to 595 basis points over five quarters, which occurred during the 2007–2009 financial crisis.

As mentioned, comments regarding the severity and plausibility of the severely adverse scenario are addressed in section II.A. Given the established severity of the unemployment rate described above in section II.B, current conditions, and the jump off value for the BBB spread, the final path was determined to be appropriate.[32]

Econ. 387-422 (2005). Caldara (2016), *supra* note 182, provides empirical evidence of such behavior of spreads in response to financial shocks and uncertainty shocks.

[30] *See supra* note 2, at 51917.

[31] For a more detailed discussion of the Enron/Dotcom episode, *see* D. Romer, *Preventing the Next Catastrophe: Where Do We Stand?* (Conference paper); Rethinking Macro Policy II: First Steps and Early Lessons Conference (2013); M. Bordo & J. Haubrich, *Deep Recessions, Fast Recoveries, and Financial Crises: Evidence from the American Record,* 55 Econ. Inquiry 527-41 (2017). The 1990 bond market stress episode is discussed, for example, in M. Wolfson, Financial Crises: Understanding the Postwar U.S. Experience (1994).

[32] The final path for the BBB spread is also consistent with the guide described in the proposed 2025 Scenario Design Policy Statement. In the proposed BBB spreads guide, BBB spreads would increase 100 basis points or to a range between 500 and 600 basis points, whichever is higher.

H. CRE Prices

In the proposed 2026 severely adverse scenario, CRE prices would have reached a trough in the fourth quarter of 2027 that would have been 40 percent below their level at the end of 2025. CRE prices would have reached their trough in the eighth quarter of the scenario.

In the final 2026 severely adverse scenario, CRE prices reach a trough in the fourth quarter of 2027 that is 39 percent below their level at the end of 2025. Although the trough value is unchanged from the proposal, a decline of 39 percent would be slightly smaller than the proposed decline of 40 percent, and is due to the slightly lower jump-off value from the proposal for CRE prices. CRE prices reach their trough in the eighth quarter of the scenario.

One commenter stated that the proposed severity of the decline in CRE prices in the 2026 severely adverse scenario is overly severe, based on the proposed scenario design principles, and that such proposed severity is not sufficiently explained. This commenter explained that the decline in CRE prices in the proposed 2026 scenario would be higher than the decline experienced in the 2025 scenario, despite similar jump-off levels and a lower nominal GDP decline in the 2026 scenario, as compared with the 2025 scenario. The commenter also asserted that the more severe decline is inappropriate given that, in the commenter's opinion, CRE lending standards have tightened and CRE prices, vacancy rates, and rent growth have stabilized relative to last year. The commenter stated that this degree of severity in the proposed 2026 scenario would increase procyclicality. The commenter recommended that the Board reconsider the proposed decline in CRE prices or provide additional explanation that compares the proposed decline in CRE prices to that used in the 2025 severely adverse scenario.

Additionally, the final CRE price decline is consistent with character and narrative for the 2026 severely adverse scenario, in which a severe shock to financial markets propagates through the economy and results in a severe, prolonged recession with high unemployment most similar

to that of the 2007–2009 financial crisis. The final severity of the CRE price decline is similar to the value observed during the 2007–2009 financial crisis.[33]

Importantly, each year's scenario is an independent exercise, and a decline of 39 percent is in line with the Board's proposal for the 2026 severely adverse scenario to make an initial calibration for most of the scenario variables for which the Board retains some flexibility in or near the upper one-third of their ranges of severity. Nonetheless, the Board recognized that a 39 percent decline is in line with past severely adverse scenarios, as the scenarios for 2021 through 2024 featured similar declines, while the 30 percent decline in the 2025 scenario was an outlier specific to the overall 2025 severely adverse scenario.

The Board addressed comments regarding the severity and plausibility of the severely adverse scenario in section II.A. Given the established severity of the unemployment rate described above in section II.B, current conditions, and the jump off value for CRE prices, the final path was determined to be appropriate.[34]

I. 5-year Treasury

In the proposed 2026 severely adverse scenario, the 5-year Treasury yield would have fallen 2.5 percentage points to 1.3 percent, reaching its trough by the fourth quarter of 2026. The decline in the 5-year Treasury yield would be frontloaded, with about 55 percent of its decline occurring in the first quarter of the scenario.

In the final 2026 severely adverse scenario, the 5-year Treasury yield falls 2.4 percentage points to 1.3 percent, reaching its trough by the fourth quarter of 2026. While the 5-year

[33] *See supra* note 2, at 51894

[34] The final path for CRE prices is also consistent with the guide described in the proposed 2025 Scenario Design Policy Statement. In the proposed CRE prices guide, CRE prices fall between 30 percent and 45 percent based on the Board's assessment of CRE indicators.

Treasury yield reaches the same trough level as in the proposed scenario, the fall in the yield of 2.4 percentage points is slightly smaller than that in the proposed scenario owing to the slightly lower jump-off value of the yield in the final scenario. The decline in the 5-year Treasury yield is frontloaded, with about 54 percent of its decline occurring in the first quarter of the scenario.[35]

One commenter observed that the term spread between short- and long-term Treasury securities was relatively constant, and provided the view that this approach would not be consistent with historical data, without providing further information.

The Board has determined to use the rate paths as generated by the macro model for Stress Testing. This approach would provide a transparent and predictable method for generating the paths of these variables. The Board notes that yield spreads in the final 2026 severely adverse scenario recover more quickly as compared to the proposed severely adverse scenario. Specifically, both the spread between the 5-year Treasury yield and 3-month Treasury rate and the spread between the 10-year Treasury yield and 3-month Treasury rate begin to recover before the end of the 13-quarter scenario horizon. These adjustments reflect updated data following additional economic data releases that became available after the publication of the proposed 2026 scenarios.

Historically, the spreads between the 5-year yield and the 3-month Treasury rate, and between the 10-year yield and the 3-month Treasury rate, behaved similarly during the 2001Q1-2001Q4 recession. When focusing on a 13-quarter period beginning at 2001Q1, which matches the scenario horizon, the spreads first peak five quarters after the onset of the recession. Subsequently, the spreads gradually decline, then remain relatively stable through the 13-quarter

[35] The difference in the pace of the decline in the 5-year Treasury yield in the final 2026 scenario relative to that in the proposed 2026 scenario arises because the numbers for scenario paths are rounded to the nearest decimal place.

horizon. Overall, the paths from the trough to the end of the 13-quarter horizon do not show a consistent trend. Similarly, the trajectories of these spreads follow comparable patterns during the 1990Q3-1991Q1 recession and the 2007-2009 financial crisis: the spreads initially increase relatively rapidly, then stabilize and remain at a higher level throughout the following quarters.

J. 10-year Treasury

In the proposed 2026 severely adverse scenario, the 10-year Treasury yield would have fallen 2 percentage points to 2.3 percent, reaching its trough by the fourth quarter of 2026. The decline in the 10-year Treasury yield would be frontloaded, with about 55 percent of its decline occurring in the first quarter of the scenario.

In the final 2026 severely adverse scenario, the 10-year Treasury yield falls 1.8 percentage points to 2.3 percent, reaching its trough by the fourth quarter of 2026. While the 10-year Treasury yield reaches the same trough level as in the proposed scenario, the fall in the yield of 1.8 percentage points is slightly smaller than that in the proposed scenario owing to the slightly lower jump-off value of the spread in the final scenario. The decline in the 10-year Treasury yield is frontloaded, with about 56 percent of its decline occurring in the first quarter of the scenario.[36]

The Board did not receive comment specifically on the proposed 2026 severely adverse scenario's 10-year Treasury yield. A comment related to term spreads is described and addressed above in section II.I.

[36] The difference in the pace of the decline in the 10-year Treasury yield in the final 2026 scenario relative to that in the proposed 2026 scenario arises because the numbers for scenario paths are rounded to the nearest decimal place.

K. Other Domestic Variables

In the proposed 2026 severely adverse scenario, the proposed scenario paths for real GDP, inflation, and the 3-month Treasury rate were generated by the macro model for Stress Testing, when given the path for the unemployment rate. Real GDP would have declined 4.8 percent from the fourth quarter of 2025 to its trough in the second quarter of 2027, before recovering to the level at the jump-off. Real disposable income would decline about 1 percent in the proposed scenario from the fourth quarter of 2025 to its trough in the fourth quarter of 2026, before recovering and gradually surpassing its level at the jump-off. Inflation, measured as the quarterly change in the CPI and reported as an annualized rate, would have fallen from 3.4 percent in the fourth quarter of 2025 to 1.1 percent in the second quarter of 2027 and then would gradually increase only to 1.3 percent by the end of the scenario. The 3-month Treasury rate would fall significantly from 4 percent in the fourth quarter of 2025 to 0.1 percent by the second quarter of 2026 and would remain there for the remainder of the scenario.

In the final 2026 severely adverse scenario, the proposed scenario paths for real GDP, inflation, and the 3-month Treasury rate are generated by the macro model for Stress Testing, when given the path for the unemployment rate. Real GDP declines 4.6 percent from the fourth quarter of 2025 to its trough in the second quarter of 2027, before recovering to the level at the jump-off. Real disposable income declines about 1 percent in the proposed scenario from the fourth quarter of 2025 to its trough in the fourth quarter of 2026, before recovering and gradually surpassing its level at the jump-off. Inflation, measured as the quarterly change in the CPI and reported as an annualized rate, falls from 2.8 percent in the fourth quarter of 2025 to 1 percent in the fourth quarter of 2026 and then gradually increases only to 1.3 percent by the end of the scenario. The 3-month Treasury rate falls significantly from 3.7 percent in the fourth quarter of

2025 to 0.1 percent by the second quarter of 2026 and remains there for the remainder of the scenario.

One commenter asserted that the trajectories of several of the modeled variables in the proposed scenario (including GDP, disposable income, inflation, and the 3-month U.S. Treasury securities rate) reflect deviations from the macroeconomic model that are not explained. This comment is discussed in greater detail in section V.

L. International Variables

In the proposed 2026 severely adverse scenario, real GDP in the euro area, the United Kingdom, and Japan would have declined about 7.5 percent relative to its value in the proposed baseline scenario by the end of 2026, with this gap persisting for the remainder of the scenario. As a result, these advanced economies would have experienced recessions with real GDP declining from jump-off to trough by 5.9 percent in the euro area, 6.1 percent in the United Kingdom, and 6.2 percent in Japan. In developing Asia, real GDP would have slowed down and run about 3 percent below baseline by the end of 2026, returning to its baseline level by the end of the scenario. Over the same period, inflation would have declined about 3 percentage points below baseline in the advanced economies, and 5 percentage points below baseline in developing Asia, returning to its baseline level by the end of the scenario. The U.S. dollar would have appreciated about 15 percent against the euro and the British pound, while it would have depreciated mildly against the Japanese yen by 1 percent, consistent with its historical behavior between the first quarter of 2008 and the first quarter of 2009. Exchange rates return to their jump-off values by the end of the scenario. The deviation of each international scenario variable

from its baseline path or from its jump-off value would be similar to that observed during the 2007–2009 financial crisis.[37]

In the final 2026 severely adverse scenario, real GDP in the euro area, the United Kingdom, and Japan declines about 7.5 percent relative to its value in the final baseline scenario by the end of 2026, with this gap persisting for the remainder of the scenario. As a result, these advanced economies experience recessions with real GDP declining from jump-off to trough by 6.1 percent in the euro area, 6.3 percent in the United Kingdom, and 6.7 percent in Japan. In developing Asia, real GDP slows down and runs about 3 percent below baseline by the end of 2026, returning to its baseline level by the end of the scenario. Over the same period, inflation declines about 3 percentage points below baseline in the advanced economies, and 5 percentage points below baseline in developing Asia, returning to their baseline levels by the end of the scenario. The U.S. dollar appreciates about 15 percent against the euro and the British pound, while it depreciates mildly against the Japanese yen by 1 percent, consistent with its historical behavior between the first quarter of 2008 and the first quarter of 2009. Exchange rates return to their jump-off values by the end of the scenario. The deviation of each international scenario variable from its baseline path or from its jump-off value would be similar to that observed during the 2007–2009 financial crisis, as in the proposed 2026 scenarios.

The Board did not receive any comments specifically regarding the proposed paths of international variables. Therefore, any changes from the proposed paths of these variables reflect the incorporation of data releases that resulted in changes to from the jump-off and baseline scenario values.

[37] *See supra* note 2, figure 9 at 51925.

III. Global Market Shock Component for the Severely Adverse Scenario

The proposed 2026 global market shock component would have been characterized by heightened market expectations of persistently high inflation, higher commodity prices, and a global recession. The scenario would have had certain elements in common with prior episodes of market reactions to periods of expected high inflation combined with low growth, such as the oil crisis of the 1970s. Both short-term and long-term Treasury rates would have risen sharply driven by higher inflation expectations. Heightened inflation expectations would have driven commodity prices upward. The expected fall in economic activity would have led to notable equity price declines across global markets. Concerns about corporate credit defaults in light of the economic slowdown would have led to wider credit spreads. The U.S. dollar would have strengthened, and exhibited large gains against the euro and moderate gains against the Japanese yen driven by higher yields in the U.S.

The following subsections describe the values for the final 2026 global market shock component of the severely adverse scenario, summarize the comments received on each component, and address any comments received.

A. General Comments

The proposed 2026 global market shock would include simultaneous stress across risk factors. According to one commenter, such simultaneous shocks across asset classes have never been observed before and do not appear to consider recent dynamics in these markets. The commenter argued that the scenarios and global market shock should be coherent and plausible. The commenter also recommended, in order to enable public feedback, that the Board provide further explanation for why such correlations are appropriate.

Given the statutory and regulatory purposes of stress testing, the design of the global market shock component of the supervisory stress test is intended to help ensure that large banks

are sufficiently capitalized and able to lend to households and businesses even in a severe recession.[38] The global market shock component differs from the macroeconomic scenarios in several ways, including by applying an instantaneous shock to a large number of risk factors that determine the mark-to-market value of trading positions, while the macroeconomic scenarios supply a projected path of economic variables that affect traditional banking activities over the entire planning period.[39] As an add-on component to the macroeconomic scenarios, it has "no assumed effect on other aspects of the stress tests such as balances, revenues, or other losses."[40] As a result, the market shock component "may not be always directionally consistent with the macroeconomic scenario."[41]

To design the global market shock, the Board generally establishes a standardized set of market shocks that apply to all companies with significant trading activity. The global market shock component has more than 20,000 specific risk factor shocks, which has resulted in more comparability in the GMS results across companies subject to it. However, the Board has explained that the benefit of comprehensiveness and consistency is "at least partly offset by the potential difficulty in creating shocks that are coherent and internally consistent, particularly as the framework for developing market shocks deviates from historical events."[42]

As in the 2019 Scenario Design Policy Statement, the Board may base the market shocks on a single historical episode, multiple historical periods, hypothetical but plausible events, or some combination of historical episodes and hypothetical events, which the Board refers to as a

[38] *See* 12 U.S.C. 5365(i)(1)(A); 12 CFR 252, App'x B, section 2.7.

[39] 12 CFR 252, App'x A, section 5(a).

[40] 12 CFR 252, App'x A, section 6.

[41] *Id*.

[42] 12 CFR 252, App'x A, section 5.2.1(c).

"hybrid approach," and which the Board adopted in the 2019 Scenario Design Policy Statement and applied for the final 2026 scenarios.[43] Depending on the type of hypothetical events, a scenario based on such events may result in changes in risk factors that were not previously observed.[44] This approach, and its implications, have several similarities to the macroeconomic scenario design considerations explained in section II.A with respect to the severity and coherence of a given scenario.

With respect to historical correlations, and as noted above, the Board considered historically observed values when calibrating the global market shock component. The Board also considered its existing approach for formulating the market shock component in the 2019 Scenario Design Policy Statement,[45] and the stress test principles outlined in the 2019 Stress Testing Policy Statement.[46] To generate the values for the global market shock component, the Board used the "GMS model" it published in connection with the proposed 2026 scenarios.[47] The Board also considered its own supervisory expertise and experience, and referenced the approach outlined in its proposed 2025 Scenario Design Policy Statement.[48]

The 2019 Scenario Design Policy Statement emphasizes that stress test scenarios are hypothetical conditions, aimed at assessing the strength and resilience of companies' capital in various economic and financial environments rather than at providing forecasts of likely

[43] 12 CFR 252, App'x A, section 5.2.2(b).

[44] 12 CFR 252, App'x A, section 5.2.2(a).

[45] 12 CFR 252, App'x A, section 5.2.

[46] 12 CFR 252, App'x B.

[47] *See* Board, Supervisory Stress Test Documentation – Global Market Shock Component, (October 2025), available at https://www.federalreserve.gov/supervisionreg/files/gms-model.pdf.

[48] *See supra* note 2.

economic conditions.[49] As stated above in section II.A, the Board's scenario design process recognizes that "historical relationships between macroeconomic variables could change over time"[50] and that the scenario should be forward-looking, "introduce[ing] elements outside of the realm of historical experience into the supervisory stress test."[51] Given these principles, stress scenarios may not assume that the future will repeat events from the past, and a scenario based on hypothetical events may result in changes in risk factors that have not been previously observed, resulting in correlations that may not be strictly observed in the past. The Board affirms that this approach is appropriate for formulating the global market shock for the final 2026 stress test scenarios.

With respect to scenario coherence and as described in the 2019 Scenario Design Policy Statement, the Board uses a hybrid approach combining historical episodes and hypothetical events to generate coherent market shock scenarios.[52] This approach is intended to help ensure "internal consistency" in the scenario, given its grounding in historical episodes, while also providing "considerable flexibility" to generate relevant and variable global market shocks.[53] Historical experience is not the only factor in assessing the plausibility of the overall global market shock component. Plausible scenarios may include the cooccurrence of multiple stress events that may happen in future stressed conditions, even if they have not occurred in the past.

[49] 12 CFR 252, App'x A, section 2(b).

[50] 12 CFR 252, App'x A, section 3.1(d).

[51] 12 CFR 252, App'x B, section 1.2(b). *See also* section 2.4(a): "The supervisory scenarios may potentially incorporate events that have not occurred historically. It is not necessarily consistent with the purpose of a stress testing exercise to assume that the future will be like the past."

[52] 12 CFR 252, App'x A, section 5.2.2(b).

[53] 12 CFR 252, App'x A, section 5.2.2(b).

As outlined in the 2026 supervisory stress test documentation on the global market shock component, the Board's approach to designing the proposed 2026 global market shock included the following three elements to balance historical experience with hypothetical scenario components.[54] First, starting from the scenario narrative, primary risk factor shocks were determined based on percentiles of historical data.[55] The selected percentile depended on the narrative, current market conditions, and firms' trading positions. Second, the Board used statistical models based on historical data to generate plausible correlations between changes to primary risk factors and all other scenario shocks.[56] Given the complexity of risk factors, the Board partitioned the full set of risk factors into asset classes and models risk factors within each class separately.[57] Coherence between asset classes is established based on pair-wise historical correlations between primary risk factors, insofar as these are representative of their respective asset classes.[58] Third, and finally, the Board may apply adjustments to ensure joint consistency with the scenario narrative, as outlined in the existing Stress Test Policy Statement.[59]

For these reasons described above, the Board believes the general approach to, and design of, the proposed 2026 global market shock was appropriate and has been primarily retained in the final 2026 global market shock. However, to enhance the overall coherence of the global market shock component, the Board will reduce the severity of commodity shocks in the final 2026 global market shock. For example, the shock to oil prices would be reduced from 77

[54] *See* Supervisory Stress Test Documentation: Global Market Shock Component (Oct. 2025), https://www.federalreserve.gov/supervisionreg/files/gms-model.pdf.

[55] *Id*.

[56] *Id*.

[57] *Id*.

[58] *Id*.

[59] 12 CFR 252, App'x A, section 6.

percent, as proposed, to 27.9 percent,[60] so that the joint calibration of the oil price and credit spread shocks (350 bps for BBB-rated bonds) would be better supported by historical experience.[61] This adjustment promotes consistency across shocks and improves the joint plausibility of shocks, without materially affecting the overall severity of the 2026 scenario or revising the character of the 2026 scenario. Final values for commodity shocks reflecting this adjustment are shown in the Scenario Data and Model Documentation available on the Board's website.[62]

Additionally, one commenter stated that the 2026 model documentation for the global market shock demonstrates that the Board retains significant discretion in the specification of global market shock primary risk factor shocks. The commenter observed that the Board would consider qualitative descriptions of the severity of the shock, mapped onto quantitative shocks, based on percentile ranges of historical data, which could lead to actual levels of shocks varying enormously. To illustrate this point, the commenter provided data related to the Board's global market shock GARCH-t methodology that showed how the percentile of the shock severity can impact the magnitude of the shock. The commenter explained that this discretion could drive significant differences year to year in scenario shock values, which would likely cause volatility in bank capital requirements.

[60] Additional commodities that will have lower severities include gold and aluminum. The full list of updates are available on the Board's website at 2026 Final Severely Adverse Market Shock (all shocks) (Excel), https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm.

[61] During the 2007-2009 financial crisis, oil prices increased over 20 percent while the credit spread widened over 350 bps. Likewise, during the COVID period, the credit spread widened over 250 bps, and commodity prices increased substantially due to supply chain disruptions.

[62] https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm.

The comment letter asserted that the Board should provide further explanation as to how it selected the severity and the particular level within the range implied by the severity for each primary shock in the global market shock component of the proposed 2026 severely adverse scenario.

As explained earlier in this section, in the Scenario Design Policy Statement[63] and the 2026 supervisory stress test documentation on the global market shock component,[64] the Board considers multiple sources of information when determining the shock size for primary risk factors, including the scenario narrative, current market conditions, and firms' trading positions. The percentile ranges, outlined in the 2026 supervisory stress test documentation on the global market shock component, allow the Board to specify shocks that are consistent with both the severity dictated by the narrative and current market conditions, and to adjust when conditions change during the comment period.

Compared with fixed percentages, percentile ranges allow the Board to make updates, based on the scenario narrative, market conditions, and firms' trading positions, in a dynamic way that can, in some cases, promote the stability of the global market shock component year to year. While the scenario narrative determines the severity category and associated relevant percentile range, nuances in the narrative may necessitate the selection of shocks from different ends of the range. In addition, changes in market conditions and firms' trading positions impact the severity of shocks. For example, a relative shock that is considered severe in one environment may not be considered severe in others. Finally, the percentile ranges allow the Board to select primary risk factor shock values that are coherent and internally consistent,

[63] 12 CFR 252, App'x A, section 5.2.

[64] *See* Supervisory Stress Test Documentation: Global Market Shock Component (Oct. 2025), https://www.federalreserve.gov/supervisionreg/files/gms-model.pdf.

which may not be achievable if the severity category is mapped to fixed percentiles. In consideration of these factors and the Board's model documentation of the global market shock, the Board determined that particular severity levels for each primary shock in the final global market shock component were reasonable and appropriate.

Finally, the Board received comments on the proposed 2025 Scenario Design Policy Statement, including with respect to the design of the global market shock component in future scenarios. The Board will consider these comments together with any other feedback from the public on issues in relation to any finalized amendments to the Board's Scenario Design Policy Statement. The comment deadline for such input is February 21, 2026.

Therefore, except as described throughout this section III, the Board intends to finalize the global market shock as proposed.

B. Equity Dividend Shock

The proposed 2026 global market shock specified a 20 percent decline in equity dividends. One commenter stated that the proposed equity dividend shock is too high relative to the equity spot price shock. The commenter suggested that the equity dividend shock should reflect a 10 percent decline rather than a 20 percent decline, in order to match the proposed equity spot shock of 15 percent, given that the moves of these variables are correlated during stress.

The Board believes the severities of the proposed shocks to equity spot and equity dividend prices to be both jointly consistent and supported by historical evidence. As explained above in section III.A, the Board considers a variety of information and factors in setting the values for these variables in the global market shock component. With respect to the equity dividend shock component, the Board considered information presented by a commenter that compared equity spot and dividend performance in a recent period and during the 2007-2009

financial crisis. The Board also considered data from a broader time period, including observations from stresses that occurred in 2020 related to the COVID-19 period stresses, where short-term dividends abruptly decline more than longer term dividends. As a result, the Board assesses the difference between the proposed 2026 equity dividend shock and the equity spot shock to be consistent with historical experience and appropriate for the final 2026 scenarios. Therefore, the Board has finalized the shocks to equity spot and equity dividend prices as proposed.

C. Agency Deliverable and Non-Deliverable Pass-Through Securities

The proposed 2026 global market shock did not distinguish between deliverable and non-deliverable pass-through securities, applying the same general pass-through spread shock for deliverable and non-deliverable pass-through securities. This proposed shock to pass-through securities was over 10 basis points larger than the shock to To-Be-Announced ("TBA") securities.[65] Specifically, the proposed 2026 global market shock specified a pass-through spread shock of 46.4 basis points, and a TBA spread shock of 34.9 basis points.

One commenter recommended that the Board distinguish between deliverable and non-deliverable pass-through securities, with a lower shock applied to deliverable pass-through securities. The commenter stated that the proposed general pass-through shock for the deliverable pass-through securities is too severe, leading to a potential inconsistency between prices for deliverable securities and TBA securities. The commenter recommended that the

[65] A pass-through security is an investment made up of a pool of mortgage loans where the payments from mortgage borrowers are collected and passed on to investors. Deliverable pass-through securities consist of standard conventional mortgage loans and can be included ("delivered") in TBA securities. Therefore, in general, deliverable pass-through and TBA securities have similar prices. Non-deliverable pass-through securities are comprised of pools of non-standard mortgages and can be priced lower than deliverable pass-through or TBA securities.

Board lower the general pass-through shock to account for a larger share of the deliverable pass-through securities in this category and to mitigate the potential inconsistency between prices for deliverable securities and TBA securities. Alternatively, the commenter suggested the Board conduct a special data collection to assist with this adjustment for the 2026 stress test.

The Board considered the comment and agreed that TBA and deliverable pass-through securities share important common characteristics, which, in the Board's judgment, warranted an assumption that the spreads for these two types of securities may move closely together in practice. For example, the Board considered that both types of securities have similar maturity and coupons, and that deliverable securities may ultimately be delivered into TBA securities. As a result, the Board determined to reduce the magnitude of the spread shock to deliverable pass-through securities to equal the TBA shock.

In order to adjust the spread shock to pass-through securities, the Board selected a weighting between deliverable and non-deliverable pass-through securities, as well as an estimate of how the shocks should differ between deliverable and non-deliverable pass-through securities, respectively. Given present limitations in firm reporting related to these different exposures, precise data is not available to calibrate the share of the deliverable and non-deliverable pass-through securities with respect to firms' pass-through securities balances. So, the Board considered available academic literature and data reports, and selected a 90 percent weighting that assumed that most of the securities in this category would be deliverable securities, and that the shock for non-deliverable securities should feature a higher shock.[66]

[66] *See* L. Goodman, J. Parrott, and B. Ryan, *Ironing Out the Wrinkles of the Single Security*, Housing Finance Policy Center (2020), https://www.urban.org/sites/default/files/publication/101541/ironing_out_the_wrinkles_of_the_single_security_0.pdf; J. Vickery, and J. Wright, *TBA Trading and Liquidity in the Agency MBS*

Applying this weighting, the Board adjusted the pass-through spread shock in the final 2026 global market shock component to be 37.4 basis points. The Board will evaluate any additional information about these markets, as it becomes available, and may adjust these assumptions in the future.

D. Non-Investment Grade Cash Bonds

One commenter stated that shocks to non-investment grade cash bonds were too severe, given current market conditions. The proposed 2026 global market shock to non-investment grade cash bonds included shocks for BB, B, and CCC-rated cash bonds of 818, 1126, and 1522 basis points, respectively. The Board considers the level of severity of non-investment grade cash bonds to be consistent with historical experience. Specifically, the Board considered data from the 2007-2009 financial crisis period, which indicated that the shocks to BB, B, and CCC-rated cash bonds from that period were similar to or higher than the proposed 2026 global market shock values for these cash bonds. Therefore, the Board determined it was reasonable and appropriate to finalize the shocks to non-investment grade cash bonds as proposed.

E. Requests for Additional Information or Documentation

In issuing the proposed 2026 global market shock, the Board published market value-based shocks for the published securitized product shocks. One commenter stated that, in addition to the published market value-based shocks, the Board should also publish scenario spread shocks to capture the capital impact of changes in bond duration.

Market, FRBNY Economic Policy Review (2013), https://www.newyorkfed.org/medialibrary/media/research/epr/2013/1212vick.pdf; and FINRA, Structured Product Activity Reports and Tables, https://www.finra.org/finra-data/browse-catalog/structured-product-activity-reports-and-tables.

In keeping with the Board's principle of consistency and comparability, as outlined in the Stress Testing Policy Statement,[67] the Board is only publishing market value-based shocks. This approach, as compared with a spread shock-based approach, avoids imposing additional burden on firms, as they would have to make additional assumptions to obtain market value-based shocks, given the spread shocks. Such additional assumptions would introduce inconsistency across firms, and could make firms' results less consistent and comparable.

In response to the commenter's concern that market value-based shocks do not capture the capital impact of changes in bond duration, the Board is clarifying that the global market shock methodology, as set forth in the 2026 supervisory stress test documentation on the global market shock component, does take duration risks into consideration in setting market value-based shocks.[68] More specifically, using spread shocks as an input, the Board calculates market value-based shocks via full-revaluation, which captures the impact of duration.[69] Therefore, the Board is not publishing scenario spread shocks as part of the final 2026 global market shock.

As part of the 2026 supervisory stress test documentation on the global market shock component and the Board's Enhanced Transparency and Public Accountability proposal, the Board proposed publishing a simplified set of shocks and providing a mapping from the simplified shocks to the full list of currently provided shocks in future scenarios. One commenter stated that this mapping should be published for comment or the Board should continue to publish relative shocks.

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[67] 12 CFR 252, App'x B, section 1.3.

[68] *See* Supervisory Stress Test Documentation: Global Market Shock Component (October 2025), https://www.federalreserve.gov/supervisionreg/files/gms-model.pdf.

[69] *Id*.

In addressing this comment, the Board has published a mapping file concurrently with the final 2026 scenarios, which contains detailed instructions for relative shock conversions and instructions on how to map from the simplified template to the original full template. These instructions include (1) the mapping between the simplified shock template and the original shock template, (2) instructions on how to calculate foreign exchange crosses for non-U.S. dollar-denominated pairs, (3) descriptions of risk factors to use for conversions of absolute shocks to relative shocks on the as-of date, and (4) descriptions of any interpolation and extrapolation methods involved in the relative shock conversions.

As stated previously, the Board will consider comments on issues related to the Board's Enhanced Transparency and Public Accountability proposal together with other comments submitted on that proposal. The comment deadline for such input is February 21, 2026.

IV. Largest Counterparty Default Component for the Severely Adverse Scenario

Large firms with substantial trading or custodial operations are required to incorporate a counterparty default scenario component into their supervisory severely adverse scenario for 2026 and recognize associated losses in the first quarter of the scenario.[70] This component involves the unexpected default of the firm's largest counterparty. The counterparty default scenario component is an add-on to the Board's severely adverse scenario. The as-of date for the counterparty default scenario component is the same as-of date as for the global market shock component.

[70] The Board may require a company to include one or more additional components in its severely adverse scenario in the annual stress test based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or based on risks to the U.S. economy. *See* 12 CFR 238.143(b)(2)(ii); 12 CFR 252.14(b)(2)(ii); 12 CFR 252.54(b)(2)(ii).

In the proposed 2026 scenario, the Board explained that, in identifying its largest counterparty, a firm subject to the counterparty default component would not consider certain entities.[71] In addition to certain sovereign entities and qualified central counterparties, certain multilateral development banks and supranational entities (International Bank for Reconstruction and Development, International Monetary Fund, Bank for International Settlements, European Commission, and European Central Bank) would not be considered for the counterparty default component to better align the treatment of these entities across regulatory exercises. The Board is separately proposing to revise the list of sovereign entities excluded from the counterparty default component in its Enhanced Transparency and Public Accountability proposal.

However, one commenter recommended that the 2026 scenario exclude from the scope of the largest counterparty default component 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 commenter stated that the proposed use of a median rating, which the Board proposed would be used if there were discrepancies between

[71] Under the proposed 2026 scenario, in identifying its largest counterparty, a firm subject to the counterparty default component would not consider certain sovereign entities (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), certain multilateral development banks and supranational entities (International Bank for Reconstruction and Development, International Monetary Fund, Bank for International Settlements, European Commission, and European Central Bank), or qualifying central counterparties (QCCPs). *See* the definition of a QCCP at 12 CFR 217.2. Note that although the International Bank for Reconstruction and Development would have been excluded, the other subsidiaries of World Bank Group (including the International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, and International Centre for Settlement of Investment Disputes) would have been considered when selecting the firm's largest counterparty. U.S. intermediate holding companies would not have been required to include any affiliate as a counterparty. An affiliate of a company includes a parent of the company, as well as any other firm that is consolidated with the company under applicable accounting standards, including U.S. generally accepted accounting principles or International Financial Reporting Standards. *See* 12 CFR 252.171(b) & (f).

internal ratings across firms, or the alternative use of credit-default swap spreads, would add unnecessary complexity and uncertainty to the stress test.

The commenter also stated that the list of multilateral development banks (MDBs) excluded from the largest counterparty default component should be further expanded to include all MDBs that are rated AA- or better under a firm's internal credit rating system.

The commenter also recommended that, if the Board does not utilize AA- equivalent internal ratings as the basis for sovereign and public sector entity exclusions, the Board should instead exclude sovereigns, public sector entities, and MDBs from the largest counterparty default component when exposures to such sovereigns receive a 0 percent risk weight under the Board's capital rule, or exposures to public sector entities that receive a 20 percent risk weight.

The commenter also asserted that the Board should revise counterparty aggregation principles utilized in the largest counterparty default component so that sovereign agencies, central banks, sovereign wealth funds, and state-sponsored entities are treated like the relevant related sovereign. The commenter stated that this approach would align with bank credit risk management principles.

The Board appreciates feedback on question 9 of the proposed 2026 scenarios, which invited feedback on how the separate proposal to exclude certain additional sovereign entities from the counterparty default component should be incorporated into the 2026 global market shock. For the final 2026 scenario, the Board is adopting the largest counterparty default exclusions described in the Enhanced Transparency and Public Accountability proposal, as the proposed set of excluded counterparties would recognize the lower risk of default associated with sovereigns of high credit quality instead. Therefore, for the 2026 stress test, the United States and sovereign entities rated AA- or higher based on the internal ratings of firms, in

addition to the qualifying central counterparties, affiliates of an intermediate holding company, and certain multilateral and supranational entities that were excluded for the 2025 stress test, will be excluded before calculating the default loss for each candidate to be a firm's largest counterparty.[72] If there are discrepancies between internal ratings across firms' internal ratings, the Board will use the median rating. As explained in the Board's proposed market risk model documentation, the selection of the median rating is intended to avoid overweighting outlier ratings submitted by a firm or firms that may underestimate the risk posed by a given counterparty, which could reduce the conservatism of the stress test.[73] In connection with that the Board's Enhanced Transparency and Public Accountability proposal,[74] the Board will continue to consider alternatives for future stress tests. The Board will consider comments received on this issue in connection with that proposal.

Separately, one commenter recommended that the Board reconsider its current assumption of 90 percent loss given default in the largest counterparty default component. According to the commenter, this loss given default rate should be reconsidered in order to align the largest counterparty default component with firms' business-as-usual capital management. Alternatively, the commenter requested the Board provide supporting data and analysis justifying this assumption. The Board expects to consider this comment together with other comments on the Board's Enhanced Transparency and Public Accountability proposal.

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

[73] *See* Board, Supervisory Stress Test Documentation - Market Risk Models (October 2025), available at https://www.federalreserve.gov/supervisionreg/files/market-risk-models.pdf.

[74] The proposed LCPD model description is provided in the Board's Market Risk Models Documentation. *See id*.

V. Macro Model for Stress Testing

The Board published model documentation describing the macro model for Stress Testing that the Board used in developing values for certain variables in the proposed 2026 stress test.[75]

As described above in sections I and II, the Board received a comment that asserted that the trajectories of several of the modeled variables (including GDP, disposable income, inflation, and the 3-month U.S. Treasury securities rate) reflect deviations from the macroeconomic model for stress testing that are not explained. The commenter particularly notes that the decline in real GDP in the proposed scenario appears to be larger than the decline implied by the Board's macro model for Stress Testing. The commenter provided an example showing a GDP decline of 4.8 percent in the proposed scenarios, compared to an approximately 4.1 percent decline that should result from the macro model for stress testing, according to the commenter's analysis.

The commenter recommended that the Board describe and explain adjustments made from model-implied outputs of these variables to arrive at the proposed values for the 2026 severely adverse scenario and the methodology used to make such adjustments, including specifying a range of permitted adjustments. The commenter asserted that these descriptions are necessary to meet the Board's legal requirements.

Additionally, one commenter observed that there may have been an error in the Board's model documentation for the Board's macro model for Stress Testing.[76] The commenter

[75] *See* Board, Supervisory Stress Test Documentation – Macroeconomic Model Guide (October 2025), available at https://www.federalreserve.gov/supervisionreg/files/macroeconomic-model-guide.pdf.

[76] *Id.*

suggested that, in equation D1, one sign in the equation should be negative, instead of positive as the Board had published.

As described in the proposed 2026 scenarios, the paths for real GDP, real disposable income, inflation, and the 3-month Treasury rate are generated by the separately published macro model for Stress Testing, given the path for the unemployment rate and other modeled factors.[77]

The macro model for Stress Testing includes factors inherited from the baseline projection in addition to its Okun's Law equation in determining the simulated path of real GDP. These factors are determined by parsing the baseline path for real GDP and the baseline unemployment rate, given by the Blue Chip survey forecasts, conditional on baseline paths for potential GDP and the natural rate of unemployment. As initially published, the macro model for Stress Testing documentation did not provide the specifications of the process that determines the trajectories of potential GDP or the natural rate of unemployment.[78] In response to comments and to further improve the transparency and public accountability of the supervisory stress test, the Board is providing additional details in the final documentation for the macro model for Stress Testing that outlines the specifications by which the natural rate of unemployment and potential GDP are determined in the baseline scenario.

Additionally, the Board's final documentation for the macro model for Stress Testing adjusts equation D1 so that the relevant sign is negative, instead of positive, as was erroneously included in the proposed model documentation. This change in documentation does not affect the values produced by the macro model for Stress Testing in the proposed or final 2026 stress

[77] *Id.*

[78] The output of the macro model for Stress Testing is described in the documentation on the Board's website, *see supra* note 4, and has been specifically structured and calibrated to fulfill the needs of the stress testing program. As such, the variable paths prescribed by it should not be interpreted as economic forecasts of the Board or the Federal Open Market Committee (FOMC).

test scenarios, because this error was solely in the public documentation and had the correct sign in the production model used by the Board to generate values for the scenarios.

VI. Other Comments Received

The Board also received comments on other issues, some of which pertain to aspects of the Board's Enhanced Transparency and Public Accountability proposal that are not specific to the 2026 scenarios. This section summarizes those comments.

A. Seeking Comment on Scenarios

One commenter welcomed the Board's efforts to provide transparency and the opportunity for public feedback on the proposed scenarios. This commenter asserted that these efforts are critical to complying with legal requirements. The commenter argued that the models and scenarios are used to determine firms' binding capital requirements under the stress capital buffer requirement and have the force and effect of law.

However, another commenter opposed the Board's action to invite comment on the 2026 scenarios, and the proposed process for subjecting the scenarios to public comment. In particular, the commenter was concerned that institutions subject to the test would be able to comment on, and by doing so, influence the severity of, the scenario used to test those same institutions. The commenter explained their view that public comment would undermine the scenario design process and result in scenarios that are more repetitive and tied to historical events, and therefore, less likely to capture salient and unseen or under-appreciated risks.

This commenter further stated that inviting comment on the scenario design process and principles for public comment would expose the Board to greater litigation risk. The commenter explained that this step would enable the banking industry to sue the Board on each aspect of its scenario design process.

Finally, another commenter supported the proposal, stating that it was logical and welcome.

The Board's proposed 2026 scenarios, as well as the separately issued Enhanced Transparency and Public Accountability proposal was issued in order to provide the public with more information about the stress test models and scenarios and to help ensure that the public has an opportunity to comment on the models and scenarios.[79] While the Board has increased the transparency of the stress test program over time, disclosing additional information about the stress test, including by seeking comment on the proposed 2026 scenarios prior to their finalization, was intended to further increase transparency and improve public accountability. This increase in transparency and public accountability would be expected to further instill confidence in the fairness of the supervisory stress tests. The disclosure of the 2026 scenarios created a new mechanism for obtaining feedback from the public, including academics, financial analysts, and firms. In implementing this mechanism for the 2026 scenarios, the Board endeavored to support the purposes of the supervisory stress test, including by assessing firms' resilience to a range of hypothetical stress events, and balancing features that might add to procyclicality in the financial system.

The Board received comments on its proposal for annually seeking comment on the stress test scenarios. The Board will consider these comments about seeking comment on future stress test scenarios together with any other feedback from the public on issues in relation to any finalized amendments to Regulations Y, LL, and YY. The comment deadline for such input is February 21, 2026.[80]

[79] *See supra* note 2.

[80] The public can provide comment on this proposal on the Board's website: https://www.federalreserve.gov/apps/forms/proposals/FR-2025-0063-01.

B. Duration of Comment Period

The Board requested comment on its severely adverse scenario for the 2026 supervisory stress test on October 24, 2025, with a due date of December 1, 2025, for comments. One commenter asked the Board to explain the rationale for the relatively short comment period. This commenter stated that, given the importance of the proposed scenario in contributing to stress test results, the limited time frame may not be sufficient for stakeholders to provide meaningful feedback.

Under its existing regulations, the Board must publish the final scenarios by February 15 of each year.[81] To allow sufficient time to review and consider all comments received, and to finalize the 2026 scenarios by February 15, the Board requested comment on the scenarios by December 1, 2025.

The Board does not consider an extension of the comment period to be warranted, given the depth of comments submitted, the operational challenges involved in any reduction in time to finalize the scenarios by February 15, 2026, and the absence of a request for an extension of time to comment.

The Board's separate Enhanced Transparency and Public Accountability proposal remains open for comments from the public. Given the breadth of materials included with that proposal, one commenter requested an extension of the comment period on that proposal from January 22, 2026, until February 21, 2026. To allow interested parties more time to analyze the

[81] 12 CFR 238.132(b); 12 CFR 238.143(b)(1); 12 CFR 252.14(b)(1); 12 CFR 252.44(b); 12 CFR 252.54(b)(1).

issues and prepare comments on the Enhanced Transparency and Public Accountability proposal, the Board granted that requested extension on November 21, 2025.[82]

C. Jump-off Values

The paths of scenario variables in the Board's scenarios are typically applied relative to the jump-off values for the variables. Regarding the Board's previous stress test scenarios, the Board published scenarios by February 15 of each year based on data available through mid-January for variable values as of the end of the preceding year. As a result, the jump-off values for those scenarios were known for most variables at the time of publication. Other jump-off values were determined using procedures discussed in the proposed 2026 scenarios, with additional information describing these procedures in the newly added Appendix C to the Board's macro model for Stress Testing, published with these final 2026 scenarios.[83] From these jump-off values, the Board applies the paths of scenario variables.

For the 2026 stress test, the jump-off values are as of December 31, 2025, as in previous years. The proposed 2026 scenario was published on October 24, 2025, based on data released through August 29, 2025. However, since final data as of December 31, 2025, was not yet available when the Board issued the proposal, the Board used the process described in the proposed 2026 scenario and the updated model documentation to determine the jump-off point for scenario variables. In the proposed 2026 scenarios, the Board explained that the jump-off

[82] *See* Board, 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 (Nov. 21, 2025), available at https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251121a.htm.

[83] "Methodology to Update the Scenarios to Incorporate Additional Data Releases" in the Board's proposed 2026 scenarios, available at https://www.federalreserve.gov/publications/files/2025-stress-test-scenarios-20250205.pdf; Appendix C to the Board's macro model for Stress Testing, available at https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm.

values for applicable variables would be updated when actual data for December 31, 2025, becomes available in January, such as with respect to equity prices, the VIX level, and the unemployment rate, and that updated values would be provided for other variables using methodology described in the proposed 2026 scenarios and the macro model for Stress Testing documentation.[84]

However, one commenter asserted that the Board did not provide sufficient transparency or guardrails regarding how the Board would determine the final jump-off values for each year's scenarios. The commenter observed that the insufficient transparency would be particularly relevant for the proposed 2026 scenarios since some variable data relies on government-produced reports and data that may be affected by the recent government shutdown. The commenter recommended that the Board further explain how it would revise the jump-off values for these variables in the final 2026 scenarios, and that the final scenarios should be broadly aligned with the proposed scenarios in terms of overall severity, in order to comply with the legal requirements.

In considering these comments, the Board acknowledges that clarifications to existing disclosures could improve the public's understanding of how the Board determines the values for the final scenarios. The Board is also interested in public input on how to best communicate its scenario design process, and if other changes to the Board's stress test calendar, such as moving the jump-off date to September 30 of each year, could mitigate data-related challenges that would repeat in future public comment processes if the proposed scenarios were published for comment prior to the availability of data that would be as-of December 31 of a given year. The Board has invited comment on that proposed change and other structural changes to the stress

[84] *See id*.

test calendar in the Enhanced Transparency and Public Accountability proposal, with comments due on February 21, 2026.[85]

Nevertheless, to address this comment, the Board has supplemented the explanation in the Board's macro model for Stress Testing to clarify in the methodology the Board used to determine the jump-off values in the final 2026 scenario.[86] In addition, the Board has updated the documentation to clarify how the determination of jump-off values may have been affected by the recent government shutdown. The Board will consider additional enhancements to the Board's process for setting the jump-off values for future scenarios together with comments on the Enhanced Transparency and Public Accountability proposal.

D. Additional Scenario Variable Guides and Discretion in Scenario Design

As part of the Board's separate Enhanced Transparency and Public Accountability proposal, the Board proposed to implement guides outlining the paths for additional scenario variables. As proposed, these additional guides would be incorporated into the Board's Scenario Design Policy Statement.[87] One commenter explained that, in their view, the proposed guides would make the severely adverse scenario in future stress tests more predictable and therefore, more easily gamed by firms subject to the supervisory stress test. In the commenter's view, the predictability of the scenarios would also provide "false comfort" to the public that banks had sufficient capital.

Another commenter expressed concern that an annual scenario could be decided at the Board's discretion, circumventing the public comment process. This commenter expressed

[85] *See supra* note 2.

[86] The documentation is available on the Board's website. *See* https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm.

[87] 12 CFR 252, App'x A.

particular concern that the proposed amendments to the Scenario Design Policy Statement indicated that the framework would permit deviation from the ranges and values provided in the proposed guides (such as due to the Board's identification of salient risks), without being thoroughly described and explained in the proposed scenarios. The commenter stated that a certain degree of discretion would not be consistent with the legal requirements.

The commenter asserted further that the discretion in the scenario design process could result in variables moving in ways that do not make economic sense or are not appropriately correlated with the movements of other variables, which could cause volatility in bank capital requirements.

The Board received feedback on the Board's proposed 2025 Scenario Design Policy Statement, which was published for comment as part of the Enhanced Transparency and Public Accountability proposal. The Board discusses these concerns, as applied to its process for selecting variables for the severely adverse scenario in the final 2026 scenario, in section II of this document. The Board will review comments on its proposed changes to the proposed 2025 Scenario Design Policy Statement together with other comments on the Board's Enhanced Transparency and Public Accountability proposal.