

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

Review of Comments and Summary of Changes to the Proposed Stress Test Models

Fall 2026

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I. Introduction: Review of Comments on the Stress Test Models

In October 2025, the Board of Governors of the Federal Reserve System ("Board") requested comment on a proposal to enhance the transparency and public accountability of the Board's stress tests (the "Enhanced Transparency and Public Accountability proposal").[1] In conjunction with that proposal, the Board also requested comment on comprehensive model documentation and proposed changes to the supervisory stress test models relative to the 2025 stress test, available at https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm. The Board received 30 comments on the proposal, comprehensive model documentation, and proposed changes to the supervisory stress test models. The comments received by the Board represent a range of views and include thoughtful engagement with the proposal and models. The Board considered comments on the Enhanced Transparency and Public Accountability proposal in the separately published Enhanced Transparency and Public Accountability final rule.[2]

This document summarizes the comments received on the supervisory stress test models.[3] Each section of this document is organized according to the component models of the stress test and includes a summary of the comments received and an explanation of any changes to the models described in each section. The Board is also proposing an additional model change for the 2027 supervisory stress test, which is available on the Board's website.[4] Documentation

[1] *See* 90 FR 51856 (November 18, 2025).

[2] 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, published Fall 2026.

[3] Comments on the Enhanced Transparency and Public Accountability proposal are discussed in the Federal Register notice published simultaneously with this document.

[4] *See* Board, 2027 Models and Reporting Proposal, available at *https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2027.htm* ("2027 Models and Reporting Proposal").

describing the final supervisory stress test models is available at the following link: https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2027.htm.

II. Credit Risk Models

A. Corporate Model

As described in the 2025 Model Documentation, the Board proposed to use the Corporate Loss model ("Corporate Model") to estimate losses on corporate loans and leases that are graded using firms' corporate loan rating processes and measured at amortized cost. Losses projected by the Corporate Model are a component of overall stressed losses in the stress test framework. These losses would flow into net income through the provisions for loan and lease losses, which are calculated by the Provisions Model.[5]

The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. Corporate PD Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to identify the relationship between macroeconomic risk factors and default, using the Corporate PD Model, through linear regressions of the probability of default on the difference between the BBB spread and the BBB spread four quarters prior.[6]

a. Guarantors

Several commenters argued that the Corporate PD Model should incorporate the risk-mitigating benefit of guarantors to avoid overstating the risk of these loans in the stress test results. Further, these commenters suggested this could be incorporated through a probability of default substitution approach similar to an approach permitted under the capital rule.[7] One

[5] *See* Board, Credit Risk Models (Oct. 2025), *https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm* ("2025 Credit Risk Models Documentation"), 7.

[6] *See* 2025 Credit Risk Models Documentation, 12.

[7] *See, e.g.*, 12 CFR 217.134(a); *see also* 12 CFR 3.134(a); 12 CFR 324.134(a).

commenter recommended collecting additional data on guarantor coverage to recognize partial guarantees.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board has considered the comments submitted recommending the collection of guarantor coverage and is proposing the addition of FR Y-14Q, Schedule H.1 (Corporate), item 124 (Guarantor Amount).[8] The Board is also proposing aligning the definition of guarantor in the Wholesale schedules with the definition of eligible guarantor under the capital rule.[9]

Implementing probability of default substitution in the Corporate Model would require substituting Schedule H.1, item 48 ("Guarantor Internal Risk Rating") for Schedule H.1, item 10 ("Obligor Internal Risk Rating"). The Board also reviewed Schedule H.1 items 44-47 ("Guarantor Flag," "Guarantor Internal ID," "Guarantor Name," "Guarantor TIN," and "Guarantor Internal Risk Rating") for data quality and consistency. In assessing the potential effects of this type of approach, the Board observed that missing ratings and inconsistent reporting across firms in the guarantor fields impeded the development of reliable estimates of the potential impact of a probability of default substitution approach. Further, the Board

[8] *See* 2027 Models and Reporting Proposal.

[9] *See* 2027 Models and Reporting Proposal; 12 CFR 217.2.

considered that the definition of eligible guarantor for purposes of the capital rule is stricter than the definition of guarantor captured by the Corporate schedule. Applying probability of default substitution using a less strict guarantor definition could expand the recognition of risk mitigation beyond the equivalent approach allowed by the capital rule, which would risk understating losses in the stress test and would not be consistent with the Board's stress testing principle of conservatism.

The Board has adopted this aspect of the Corporate Model as proposed, which does not incorporate the risk-mitigating benefit of guarantors. The Board considered available data, academic literature, and model performance testing analysis to choose the segmentation in the proposed model.[10] The Board also considered that the model has performed well across segments historically, including facilities with guarantors. While the Board is finalizing this aspect of the Corporate Model as described in the 2025 Credit Risk Models Documentation, to further assess the commenters' suggestions, the Board is proposing to align the definition of guarantor in the Wholesale schedules with the definition of eligible guarantor under the capital rule and adding a new field to Schedule H.1 to capture the amount covered by the guarantor. The Board may also consider efforts to improve guarantor data quality through the standard review processes for regulatory reports. The Board may consider whether to make associated model changes to recognize guarantors as a loss mitigant after collecting and analyzing the additional data as part of a future proposal.

Considering the purposes of the Corporate Model,[11] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the

[10] *See* 2025 Credit Risk Models Documentation, 10, 19–23.

[11] *See* 2025 Credit Risk Models Documentation, 7–10.

Corporate PD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed. As discussed above, the Board is proposing changes to Schedule H to collect data that would be used in order to consider alternative approaches in the future through its regular process of model development and validation.

b. Granularity

Several commenters recommended that the Corporate PD Model be modified to add granularity in order to address the risk of various borrower industries, sectors, or loan type, and to further differentiate credit risk ratings. These commenters provided suggestions, including expanding the rating categories, separating the Diversified Finance and All Other categories into smaller segments, and requested that the Board provide analysis demonstrating that industry groupings in the Corporate PD Model form homogenous risk pools, with an emphasis on funds and credit-intermediation firms within the Diversified Finance segment.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

The Board considered more granular segmentation for the Corporate PD Model; however, as described in the 2025 Credit Risk Models Documentation, the proposed and final models provide a practical balance between data sufficiency and granularity.[12]

The Board's assessment of this alternative found that data scarcity issues constrain the ability to construct well-populated estimation samples for more granular segments across ratings and industries. Therefore, increasing segmentation is expected to result in poorly populated samples that fail to yield economically meaningful and significantly different estimates.

[12] *See* 2025 Credit Risk Models Documentation, 19–21; Board, 2026 Credit Risk Models Documentation, ("2026 Credit Risk Models Documentation"), Section A.ii.

Specifically, while the estimation sample is generally comprehensive, there are insufficient records among available data sources for publicly rated borrowers with vendor probabilities of default, particularly during periods of macroeconomic stress, to further differentiate companies into notched ratings while maintaining the four broad industry categories. Projecting probability of default for notched rating segments would also require mapping firms' internal ratings to accommodate notched rating categories, a process complicated by firms' disparate risk rating systems.

The Board considered industry groupings constructed purely on statistical similarities via cluster analysis that yielded homogenous risk pools. However, these were found to lack grounding in underlying economic theory or well-reasoned logical justification, and the additional complexity of the cluster analysis based homogenous groupings did not yield loss estimates that were sufficiently different to support their adoption. The industry segmentation of the Corporate PD Model balances empirical evidence with economic intuition. Finally, funds and credit-intermediation fall into the broader category of non-bank financial institutions ("NBFIs"). The Board reclassifies NBFIs with significantly different risk characteristics and will evaluate whether such reclassifications should be modified or removed as additional data is received.

Considering the purposes of the Corporate Model,[13] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Corporate PD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

[13] *See* 2025 Credit Risk Models Documentation, 7–10.

2. Corporate LGD Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to estimate conditional loss given default on corporate loans and leases as a function of collateral, lien position, and loan type, with the BBB spread as a stress factor, through the Corporate LGD Model.[14]

a. Guarantors

Several commenters recommended that the Corporate LGD Model be enhanced to incorporate the loss-mitigating benefits of guarantors. For instance, one commenter stated that the Corporate LGD Model should allow the loss-given-default treatment under the probability of default substitution approach and specifically argued that U.S. government guarantees would deserve a loss given default of zero.

Another commenter stated that the Corporate LGD Model should be enhanced to explicitly incorporate historical loss experience and product-based losses given default to reflect the impact of guarantees on loss severity. This commenter, along with several others, acknowledged that guarantor rating substitution is an alternative approach to recognizing the credit-risk-mitigation benefits of eligible guarantors.

The Board has considered the comments submitted and has determined to finalize the specification of the Corporate LGD Model as described in the 2025 Credit Risk Models Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any

[14] *See* 2025 Credit Risk Models Documentation, 12, 28–29.

future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board views guarantor rating substitution within the Corporate PD Model as a simpler and more transparent way to incorporate the credit-risk-mitigation benefit of eligible guarantors. The Board also considered that corporate facilities that feature explicit U.S. government guarantees currently represent a negligible portion of the firms' portfolios. The Board also considered the alternative suggested by a commenter, that the Board utilize guarantor rating substitution, but as discussed in further detail in Section II.A.1 and 2, the Board is not adopting this approach at this time. While the Board is finalizing this aspect of the Corporate Model as described in the 2025 Credit Risk Models Documentation, the Board may consider alternative approaches in the future through its regular process of model development and validation.

The Board has adopted this aspect of the Corporate Model as proposed, which does not incorporate a risk-mitigating benefit of guarantors in the Corporate LGD Model. If the risk-mitigating benefit of guarantors were to be incorporated in the Corporate Model, in keeping with the Stress Testing Policy Statement principles of simplicity and transparency,[15] the probability of default substitution approach would be preferred over explicitly incorporating historical loss experience and product-based losses given default to calibrate the overall Corporate Model, including to account for loss mitigation due to contractual guarantees. As noted in Section II.A.1, the Board may consider whether to make associated model changes to recognize guarantors as a loss mitigant after collecting and analyzing the additional data as part of a future proposal.

[15] *See* 12 CFR 252, Appendix B, sections 1, 1.4.

Considering the purposes of the Corporate Model,[16] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Corporate LGD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

b. Collateral

Multiple commenters recommended that the Corporate LGD Model reflect the quality of collateral securing an exposure. Several commenters argued that asset-based loans experience lower losses due to structural features that ensure adequate collateral is available to cover credit extensions. Some commenters specifically singled out dealer floorplan loans or trade finance as specific types of lending with risk-reducing features. Several commenters also asserted that loans secured by mortgages that are intended to be sold to the Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"), both known as government-sponsored enterprises (GSEs) (agency-qualifying mortgages), including loans to loan warehouse facilities that hold agency-qualifying mortgages, should be identified so that their risk-mitigating characteristics can be captured. One commenter recommended an adjustment to the Corporate LGD Model for leveraged loans based on recovery data from recent years and available industry data provided by the commenter. These commenters suggested a range of potential model changes to implement their recommendations, including increasing segmentation, differentiating sensitivity by adding explanatory variables or interaction terms, or recategorizing collateralized exposures into existing lower-risk segments.

To support these treatments, commenters also suggested changes to Schedule H.1 to better identify risk characteristics that include: collecting additional data on the amount of

[16] *See* 2025 Credit Risk Models Documentation, 7–10.

collateral; revising reporting instructions for internal credit ratings to allow obligor or facility level ratings; identifying loans that are collateralized by agency mortgages; and amending the leveraged lending flag or adding a new field to ensure leveraged loans are identified.

The Board has considered the comments submitted and has revised the model specification of the Corporate LGD Model to map the previously adopted twelve new collateral types on Schedule H.1, item 36 ("Security Type") to "Other Assets" consistent with the treatment of the "Other" security type as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.[17] The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[18]

The Board considered the comment submitted recommending identifying loans that are collateralized by agency mortgages. The Board notes that "14 Residential Mortgages Agency" and "15 Residential Mortgages Non-agency" are included in the previously adopted changes to Schedule H.1.[19] The Board has considered the comments submitted recommending the collection of additional information on collateral coverage and has determined that the adopted changes to Schedule H.1, item 36 ("Security Type") and item 93 ("Collateral Market Value") capture additional information on the type and value of collateral. The Board is not proposing additional changes to collect additional information on collateral types or collateral values.

The Board considered the comment submitted recommending revising the reporting instructions for internal credit ratings to allow obligor or facility level ratings. The Board is not

[17] As of 2026Q4, the instructions for the FR Y-14Q include twelve new options for Schedule H.1, Field 36 (Security Type) covering an array of known security types. *See* 91 FR 29485, 29489 (May 20, 2026); Board, Final Draft FR Y-14Q Reporting Form Instructions, *https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=DB30E9AC-6BED-4AC6-9CD4-FEDE47063989* ("Final Draft FR Y-14Q Reporting Form Instructions").

[18] *See* 2026 Credit Risk Models Documentation, 23–34.

[19] *See* 91 FR 29485, 29489 (May 20, 2026); Final Draft FR Y-14Q Reporting Form Instructions.

proposing revisions to Schedule H.1, item 10 ("Obligor Internal Risk Rating"); however, the Board has proposed adding Schedule H.1, item 126 ("Facility Internal Risk Rating") to collect facility rating as discussed in Section II.A.4.[20]

The Board considered the comment submitted recommending amending the leveraged lending flag or adding a new leveraged loan identifier. The Board is not proposing changes to Schedule H.1, item 97 ("Leveraged Loan Flag") or adding a new leveraged loan identifier for the reasons discussed below and in Section II.C.1.

The Corporate LGD Model includes variables that identify facilities secured by current assets, all assets, and those that are in second-lien or third-lien position. Current assets serve as a broad proxy for collateral quality because current assets are comprised of cash, marketable securities, accounts receivable, inventory, and other assets that are generally more liquid and stable. Therefore, the Corporate LGD Model already provides a significant degree of collateral differentiation. In considering whether to further increase the collateral granularity in the model in the future, the Board would assess two sets of considerations. First, the Board would consider whether the lending types suggested by commenters would have a statistically significant and non-trivial effect beyond the effect already captured by the existing explanatory factors in the Corporate LGD Model. Second, the Board would consider whether it would be possible to accurately identify the lending type in both the vendor estimation data set to capture the effect and firm portfolios reported on Schedule H.1 to project losses.

In evaluating the comments, the Board conducted analysis of firm-reported loss given default estimates reported on Schedule H.1 while controlling for the existing explanatory factors in the Corporate LGD Model. The analysis showed that firms' own internal estimates recognize

[20] *See* 2027 Models and Reporting Proposal.

that asset-based lending provides additional loss given default protection beyond that afforded by collateral type. At the same time, since Schedule H.1 lacks both recovery information and significant recessionary periods, it is not the preferred data set for estimating the Corporate LGD Model. Therefore, to expand upon firms' provided internal estimates, the Board conducted analysis to identify asset-based loans within the vendor estimation dataset. While the Board observed that the vendor dataset provides meaningful recovery data and stress behavior, there is not a clear delineation for narrow lending types. To proxy collateral types, the Board's assessment utilized an approach to identifying asset-based lending suggested by academic literature[21] while also considering various interaction effects. Although the asset-based lending proxy variable was statistically significant, the projections of loss given default over the 9-quarter horizon did not meaningfully differ. Additionally, the Board also considered the impact of allowing macroeconomic sensitivity to vary by collateral type and found that the interaction terms were consistently statistically insignificant. Given that the proposed Corporate LGD Model is conceptually sound and produces similar results, the Board retained the less-complex modeling approach aligned with the Stress Testing Policy statement principles of simplicity and conservatism.[22]

The Board considered the conceptual merit of the suggestion to incorporate more granular collateral categories. Narrower lending types such as dealer floorplan, trade finance, and mortgage warehousing facilities cannot be identified in the vendor estimation data set and comprise a relatively small portion of overall corporate exposure except at specific firms. Even if they could be identified in the vendor estimation dataset and found to be significant, narrow

[21] *See* A. Kermani and Y. Ma, *Two tales of debt*, National Bureau of Economic Research, no. w27641 (2020).

[22] *See* 12 CFR 252, Appendix B.

lending type effects could operationally be equivalent to firm-specific fixed effects, which are generally not incorporated in supervisory models and would risk the model not producing stable and reliable results.[23] Furthermore, since the suggested collateral types could be associated with financial institution borrowers, the Board attempted to proxy for this collateral using lending to financial institutions as a more general proxy. The analysis showed no relationship between lending to financial firms and loss given default. Therefore, the Board determined to retain the current approach, consistent with the Board's stress testing principles of simplicity and conservatism, because it enhances the model's generalizability and reliability for stress testing purposes.

The Board is revising the Corporate LGD Model to map the twelve new collateral types to "Other Assets" consistent with the treatment of the "Other" security type as described in the 2025 Credit Risk Models Documentation. The Board has determined that this mapping is most consistent with the proposed model while reflecting the adopted changes to Schedule H.1. Revisions to Schedule H.1, item 36 ("Security Type") have been previously made by the Board and are effective December 31, 2026;[24] the Board will analyze information received in relation to these new collateral types to evaluate whether they provide information on the lending type or quality of collateral that would be relevant to the Corporate LGD Model.

Stress test results are designed to project performance in adverse economic conditions. Supervisory models are recalibrated with newly available data to capture evolving risks; however, data changes generally should not be the principal driver of a change in results, year

[23] *See* 12 CFR 252, Appendix B, section 2.4.

[24] As of 2026Q4, the instructions for the FR Y-14Q include twelve new options for Schedule H.1, Field 36 ("Security Type") covering an array of known security types. *See* 91 FR 29485, 29489 (May 20, 2026); Final Draft FR Y-14Q Reporting Form Instructions.

over year.[25] In considering a comment that the Board should amend the leveraged lending flag or add a new field to ensure leveraged loans are identified, the Board conducted analysis of firm-reported loss given default estimates for leveraged loans reported on Schedule H.1. The analysis found some evidence of recent increases in firm-reported loss given default estimates for leveraged loans, which is different from a much longer run and more significant decline over the available history. Based on the longer-term downward trend in firm-reported loss given default estimates and the principles of robustness and stability in the Stress Testing Policy Statement, the Board declined to adjust the Corporate LGD Model's treatment of leveraged loans. Comments recommending that the Board rescind SR Letter 13-3 "Interagency Guidance on Leveraged Lending" are discussed in Section II.C.1 below.

Considering the purposes of the Corporate Model,[26] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Corporate LGD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed, except the revisions to map the new collateral types to "Other Assets" consistent with the treatment of the "Other" security type described above.

3. Corporate EAD Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to determine the portion of unfunded commitments drawn down at default using a constant loan equivalent rate ("LEQ") through the Corporate Exposure at Default (EAD) Model.[27]

One commenter recommended revising the Corporate EAD Model to allow a lower LEQ for investment grade commitments relative to non-investment grade commitments. For support,

[25] *See* 12 CFR 252, Appendix B, section 1.5.

[26] *See* 2025 Credit Risk Models Documentation, 7–10.

[27] *See* 2025 Credit Risk Models Documentation, 12, 35.

the commenter presented historical data of credit line utilization rates for certain non-financial companies from a recent academic paper. Another commenter recommended that the Corporate EAD Model differentiate between committed and discretionary lines of credit that a lender can easily and quickly cancel.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

While the Corporate EAD Model uses a constant LEQ rate to determine the portion of an unfunded commitment drawn down at default, alternatives models were considered when calibrating LEQ. The Board chose a constant LEQ in accordance with Stress Testing Policy Statement principles of simplicity as well as robustness and stability after reviewing the range of values produced by these alternatives.[28] The Board found inconsistent effects when including an investment grade indicator variable in these alternative models. In addition, other explanatory factors tend to be both more consistent and material when compared to the investment grade indicator variable that would be prioritized in the alternative models. While this analysis is subject to the same data scarcity constraints discussed in Section A.ii.c of the 2025 Credit Risk Models Documentation,[29] the Board found that investment grade commitments did not have a consistent relationship to LEQ and therefore the suggested modification appeared to be less aligned with the Stress Testing Policy Statement principles. While the Board is finalizing this aspect of the Corporate EAD Model as described in the 2025 Credit Risk Models

[28] *See* 2025 Credit Risk Models Documentation, at 38–40.

[29] *See* 2025 Credit Risk Models Documentation, 38, 41–42.

Documentation, the Board may consider alternative approaches that consider further explanatory factors in the future through its regular process of model development and validation.

The Board also considered a comment that the model should differentiate between committed and discretionary lines of credit. Although unconditionally cancelable commitments allow banking organizations to cancel such commitments at any time without prior notice, modeling these facilities separately, reflecting firms' capacity to quickly and easily cancel lines of credit, would conflict with the Stress Testing Policy Statement's principle of ensuring that firms maintain a constant credit supply under the severely adverse scenario.[30]

Considering the purposes of the Corporate Model,[31] as well as the comments received and the Board's responses above, the Board considers the Corporate Model's treatment of committed and discretionary lines of credit to be appropriate for the supervisory stress test, and has adopted the model as proposed.

4. Corporate Model Risk Characteristics and Clarifications

One commenter recommended revising the Corporate Model by incorporating existing identifications of fronting exposures[32] as, the commenter argued, this approach would prevent overstatements of potential losses. The commenter suggested using data reported in Schedule H.1, item 20 ("Credit Facility Type") to identify fronting exposures.

Separately, several commenters stated that capital call subscription facilities ("CCSFs") have risk features similar to margin lending because they share key risk-mitigating features and structural characteristics designed to significantly reduce the risk of loss. These commenters

[30] *See, e.g.*, 12 CFR 252, Appendix B, section 2.7

[31] *See* 2025 Credit Risk Models Documentation, at 7–10.

[32] These exposures represent obligations to advance funds on behalf of other participant lenders.

suggested reclassifying capital call subscriptions as margin loans and applying the same constant loss rate.

Additionally, several commenters stated that held-for-investment ("HFI") loans with the structural features of securitizations should be treated equivalently with available-for-sale ("AFS") securitization exposures. These commenters recommended that the Board apply the Market Risk Securities Model to these exposures. To support this treatment, one commenter recommended adding fields to Schedule H.1 to capture when an exposure qualifies for securitization treatment under the regulatory capital framework, as well as the facility grade and the security type.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board has considered the comment submitted recommending the collection of additional fields to identify and assess the risk of exposures that qualify for securitization treatment and is proposing adding Schedule H.1, item 125 ("Securitization Flag") to identify exposures that qualify for securitization treatment and Schedule H.1, item 126 ("Facility Internal

Risk Rating") to capture the facility rating for the reasons discussed below.[33] The Board has determined not to collect additional data on security type given the previously adopted changes.[34]

The Board will continue to treat fronting exposures as proposed in the 2025 Credit Risk Models Documentation, and as described in Section A.ii.d(2) of the 2026 Credit Risk Models Documentation.[35] As described in that documentation, the Board sets the probability of default equal to 0 percent in the Corporate PD Model for fronting exposures, but retains the outstanding balances of these exposures when calculating loss rates to ensure they are scaled properly when applied to aggregate portfolio balances from FR Y-14Q, Schedule M. As a result, the Board determined that the proposed and final model methodology prevents overstatement of potential loss by identifying fronting exposures and setting their probability of default equal to 0, and has adopted this aspect of the Corporate Model as proposed.

The Board is maintaining the treatment of CCSFs in the Corporate Model. While CCSFs do have risk mitigating features, these features are adequately captured in the Corporate Model when relevant fields are reported accurately on Schedule H.1. The proposed and final Corporate PD Model and Corporate LGD Model recognize facility-level risk characteristics that adequately differentiate risk when obligors are highly rated and well-collateralized.[36] Additionally, the Board considered that reclassifying and applying a fixed loss rate would remove all differentiation across capital call subscriptions. Although companies in the Diversified Finance category exhibit greater default risk relative to similarly rated obligors in other industries, highly

[33] *See* 2027 Models and Reporting Proposal.

[34] As of 2026Q4, the instructions for the FR Y-14Q include twelve new options for Schedule H.1, Field 36 ("Security Type") covering an array of known security types. *See* 91 FR 29485, 29489 (May 20, 2026); Final Draft FR Y-14Q Reporting Form Instructions.

[35] *See* 2025 Credit Risk Models Documentation, at 45–46; 2026 Credit Risk Models Documentation, 38.

[36] *See* 2025 Credit Risk Models Documentation, 12, 28–29; 2026 Credit Risk Models Documentation, Sections A.ii.a and A.ii.b.

rated obligors within the Diversified Finance category receive appropriately low probabilities of default. Similarly, secured facilities receive appropriately low losses given default based on their collateral type. As a result, the Board determined that it is unnecessary to reclassify capital call subscriptions or assign them a constant loss rate. While the Board is finalizing this aspect of the Corporate Model as described in the 2025 Credit Risk Models Documentation, the Board may consider alternative approaches in the future through its regular process of model development and validation.

The final Corporate Model does not apply the Securities Model described in the 2025 Market Risk Models Documentation to HFI corporate loans that qualify for securitization capital treatment. The Board considered available data, academic literature, and model performance testing analysis to select the segmentation described in the Corporate Model.[37] The Board also considered that this aspect of the Corporate Model has performed well across segments historically, without specifically identifying HFI loans that qualify for securitization treatment. Specifically, the model performs well in terms of fit, statistical significance, and ongoing monitoring, both in aggregate and for individual firms. While the Board is finalizing this aspect of the Corporate Model as described in the 2025 Credit Risk Models Documentation, to evaluate the feasibility of applying an alternative approach to exposures that qualify for securitization treatment under the regulatory capital framework, the Board is proposing the collection of additional fields to identify and assess their risk.[38] The Board may consider alternative approaches in the future through its regular process of model development and validation.

[37] *See* 2025 Credit Risk Models Documentation, 10 and 19–23.

[38] *See* 2027 Models and Reporting Proposal.

Considering the purposes of the Corporate Model,[39] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Corporate Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

B. Commercial Real Estate Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to use the Commercial Real Estate model ("CRE Model") to estimate losses for commercial real estate ("CRE") loans calibrated using historical data on CRE payment status and loan losses, loan characteristics, and economic conditions. The CRE Model projects these losses with an expected loss modeling framework, using data on firm-reported loan characteristics and the economic conditions defined in the Board's supervisory stress test scenarios.[40] CRE lending is an important business line for many banks, including those that participate in the supervisory stress test. Accordingly, deterioration in the performance of CRE loans can significantly impact a firm's capital position. The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. CRE PD Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to project the probability that a loan transitions from current to default status, dependent on loan characteristics and macroeconomic factors, such as the unemployment rate, using the CRE PD Model.[41]

[39] *See* 2025 Credit Risk Models Documentation, 7–10.

[40] *See* 2025 Credit Risk Models Documentation, 48.

[41] *See* 2025 Credit Risk Models Documentation, 51.

a. Prepayment of loans prior to maturity

One commenter suggested that the CRE Model should be modified to account for the possibility of prepayment of performing loans because the proposed model may overstate default risk at maturity. This commenter suggested that the Board incorporate a competing risks framework in the CRE PD Model subcomponent.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

The final CRE PD Model does not directly incorporate the possibility of prepayment. Analysis conducted by the Board examined the prevalence of historical prepayment of performing loans by considering disposed extensions of credit where the facility was paid in full by the borrower prior to maturity. The analysis found that the historical incidence of prepayment for loans reported on FR Y-14Q, Schedule H.2 (Commercial Real Estate) is relatively low, especially during times of stress, and would thus have an immaterial impact on model outcomes. As part of the competing risk analysis,[42] the Board also considered an even more common potential outcome that is also not addressed in the proposed model—loan extension. Because the historical incidence of prepayment is lower than the historical incidence of extension, any small impact of prepayment would be offset by incorporating loan extension. The Board has elected to retain the proposed and final model where prepayment and extension are omitted, based on the principle of simplicity and analysis showing the proposed and final model projects losses adequately.

[42] *See* 2025 Credit Risk Models Documentation, 141–42.

Considering the purposes of the CRE Model,[43] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the CRE PD Model to be appropriate for the supervisory stress test, and has adopted the models as proposed.

b. Debt Service Coverage Ratio

One commenter suggested that the Board should directly account for the effect of debt service coverage ratio ("DSCR") in the logistic regression component of the CRE PD Model, rather than using a minimum cut-off value and consistent scalar. The commenter stated that the Board could specify an interaction term between DSCR and the indicator variable associated with firm-held income producing loans. The commenter also requested further justification for the Board's decision to apply the DSCR cut-off and adjustment to all income-producing loans, without differentiating property types or loan types.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In the proposed model, the projected probability of default for all income-producing loans that reach maturity within the 9-quarter projection horizon with a DSCR below 1.2 is

[43] *See* 2025 Credit Risk Models Documentation, 47–48.

scaled upwards by a factor of four.[44] The Board determined that such a treatment is warranted after evaluating whether the logistic regression specification appropriately captures the impact of heightened refinancing risk in a high-interest-rate environment and whether differentiation by property types enhanced the model's projection abilities. First, the Board's analysis showed that the logistic regression model tended to underpredict probability of default for close-to-maturity income-producing loans with low DSCRs. Therefore, the Board decided to use the scalar approach to correct for that underprediction. Second, the analysis showed that impact on projected losses of applying property-type-specific scalars is minimal compared to the chosen approach of a consistent scalar. For these reasons, and to align with the Stress Testing Policy Statement principles of simplicity and consistency,[45] the Board has chosen to apply a common scalar across property types.

The Board also considered directly accounting for the effect of DSCR in the logistic regression component of the CRE PD Model by introducing an interaction term between DSCR and the indicator variable associated with firm-reported income producing loans, as proposed by the commenter. However, incomplete reporting of net operating income values (used to compute DSCR) in earlier reporting periods does not enable a reliable estimate of a stable and intuitive coefficient on this interaction term using the regression approach. Accordingly, the Board determined to use more recent data to capture the refinancing default risk associated with low DSCR loans through the DSCR adjustment. The DSCR adjustment is calibrated using data from 2022Q1 to 2024Q3 where data are more complete. The Board will re-evaluate the DSCR adjustment annually to incorporate the effect of newly available DSCR data.

[44] *See* 2025 Credit Risk Models Documentation, 56–57.

[45] *See* 12 CFR 252, Appendix B, sections 1.3–1.4.

As noted in the 2025 Credit Risk Models Documentation,[46] the DSCR adjustment allows the CRE PD Model to account for the effect of changes in interest rates on the probability of default of a CRE loan. Changes in net operating income are proxied through CRE market conditions in the logistic regression model (e.g., rents and vacancy rates). Local CRE market variables allow important regional impacts to be captured while maintaining model simplicity.

While the Board is finalizing this aspect of the CRE Model as described in the 2025 Credit Risk Models Documentation, the Board may consider alternative approaches in the future through its regular process of model development and validation.

Considering the purposes of the CRE Model,[47] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the CRE Model to be appropriate for the supervisory stress test, and has adopted the models as proposed.

2. CRE LGD Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to calculate, for a CRE exposure, the amount of loss conditional on a default using the CRE LGD Model.[48] The CRE LGD Model projects the loan's collateral value at the time of default using loan-specific valuations, movements in broader commercial price indices, and a discount factor. The discount factor is estimated separately by property type using industry-wide realized transaction data on CRE assets, which captures the price discount on properties sold to resolve distressed bank debt.[49]

[46] *See* 2025 Credit Risk Models Documentation, 62.

[47] *See* 2025 Credit Risk Models Documentation, 47–48.

[48] *See* 2025 Credit Risk Models Documentation, 73.

[49] *Id.*

One commenter suggested that the CRE LGD Model be modified to account for the change in national CRE prices between purchase and sale in the discount factor regression to incorporate broader movements in real estate values between transactions.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation.

The Board conducted analysis to examine the impact of incorporating the change in national CRE prices between purchase and sale on the discount factor estimate. The analysis found that the discount factor estimate does not appear to have an observable relationship with broader movements in the national CRE price index. The added complexity introduced by the alternative approach would not be expected to have a material impact on model outcomes. Therefore, the Board has elected to retain the CRE LGD Model as proposed in the 2025 Credit Risk Models Documentation consistent with the Stress Testing Policy Statement principle of simplicity.[50]

Considering the purposes of the CRE Model,[51] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the CRE LGD Model to be appropriate for the supervisory stress test, and has adopted the models as proposed.

3. CRE Model Clarifications and Other Comments

a. Affordable Housing

Several commenters suggested that the Board differentiate loans collateralized by affordable housing from other multifamily loans in the CRE Model because affordable housing loans have a risk profile that is distinct from other types of multifamily lending. These

[50] *See* 12 CFR 252, Appendix B, section 1.4.

[51] *See* 2025 Credit Risk Models Documentation, 47–48.

commenters asserted that the Board could explore novel datasets to calibrate the historical performance of affordable housing. One of these commenters suggested that the Board modify Schedule H.2, item 9 ("Property Type") to separate affordable housing loans as distinct from other multifamily lending.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board has considered the comment submitted recommending revising the options for Schedule H.2, item 9 ("Property Type") and is proposing adding Schedule H.2, item 78 ("Affordable Housing Flag") to capture affordable housing and revising Schedule H.2, item 9 ("Property Type") to clarify its reporting.[52]

The Board acknowledges that loans collateralized by affordable housing may exhibit characteristics that differ from other multifamily loans. The Board's model performance analysis indicates that the CRE Model performs well for the multifamily property category, which includes affordable housing. This suggests that the model does not exhibit material aggregate bias as a result of including affordable housing loans within the broader multifamily category.

[52] *See* 2027 Models and Reporting Proposal.

The Board also considered the suggestion to incorporate publicly available multifamily affordable housing loan performance data. While such data may provide useful insights regarding affordable housing lending, further analysis would be required to assess the quality, representativeness, and suitability of these data for supervisory model development and to understand how they could be appropriately integrated with the existing data sources. While the Board is finalizing this aspect of the CRE Model as described in the 2025 Credit Risk Models Documentation, to further assess the commenters' suggestions, the Board is proposing to revise Schedule H.2, item 9 ("Property Type") to clarify reporting and add Schedule H.2, item 78 ("Affordable Housing Flag") to capture different types of affordable housing.[53] The Board may consider alternative approaches in the future through its regular process of model development and validation.

b. Guarantor Recourse

One commenter suggested that the Board incorporate the effect of recourse to a sponsor or guarantor on the CRE probability of default model sub-component and loss given default model sub-component.[54] The commenter also suggested the Board explore historical credit loss allowances to derive scaling factors for recourse, or to include an indicator variable for recourse in the logistic regression component of the CRE probability of default model sub-component.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory

[53] *Id.*

[54] *See* 2025 Credit Risk Models Documentation, 51–52, 73.

reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board has considered the comments submitted recommending the collection of guarantor coverage and is proposing adding Schedule H.2, item 77 ("Recourse Amount") and to align Schedule H2, item 21 ("Recourse") with the definition of eligible guarantor as defined in 12 CFR 217.2.[55]

The Board evaluated the impact of guarantor status on CRE probability of default and loss given default. The Board considered an array of academic literature[56] to inform its analysis that evaluated the relationship between recourse and the credit risk of commercial real estate lending. The literature informed the Board's analysis of guarantor status on firm-reported loss given default and probability of default estimates reported on Schedule H.2. The analysis showed that the inclusion of a guarantor indicator had a statistically insignificant impact on firm-reported loss given default estimates and translated to a lower firm-reported probability of default. At the same time, the analysis found that recourse is a very common feature of loans in the CRE portfolio and has variation similar to already-specified risk characteristics captured in the PD model, so the addition of recourse in the model has limited benefit. In keeping with the Stress Testing Policy Statement principle of simplicity, the Board elected to retain the proposed model without the addition of guarantor status. While the Board is finalizing this aspect of the CRE Model as described in the 2025 Credit Risk Models Documentation, the Board is proposing

[55] *See* 2027 Models and Reporting Proposal; 12 CFR 217.2.

[56] *See, e.g.*, M. Beyhaghi, *Third-party credit guarantees and the cost of debt: Evidence from corporate loans*, Review of Finance 26(2) (2022), 287–317; D. Glancy, R. Kurtzman, L. Loewenstein, and J. Nichols, *Recourse as shadow equity: Evidence from commercial real estate loans*, Real Estate Economics 51(5) (2023), 1108–36.

to revise Schedule H.2, item 21 ("Recourse") to align the definition of guarantor consistent with the proposed change to Schedule H.1 and in alignment with 12 CFR 217.2.[57] Similarly, the Board is proposing to capture the amount of recourse to collect additional data on the amount of coverage. The Board may consider alternative approaches in the future through its regular process of model development and validation.

c. Construction loans

Several commenters recommended that construction and development loans be modeled separately from income-producing CRE loans because of the distinct risk profile of construction loans under stress. These commenters recommended that the Board conduct future research and build a separate model for construction loans to capture the degree of completion of construction and development projects that are in a transitional phase.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board has considered the comments submitted recommending the collection of data on construction projects that are in a transitional phase and is proposing to add Schedule H.2, item 79 ("Current Development Status").

[57] 2027 Models and Reporting Proposal.

The Board recognizes that different types of CRE loans may have different risk profiles. However, despite the fact that construction loans are modeled jointly with income-producing loans, controlling for differences in baseline default risk and maturity default risk through a series of indicator variables, as proposed in the CRE Model specifications described in the 2025 Credit Risk Models Documentation, allows significant differentiation across the risk profiles of various loans. As described in the 2025 Credit Risk Models Documentation,[58] firm-reported construction loan data from Schedule H.2 span a limited time period and display relatively little variation with macroeconomic conditions. Unlike income-producing loans, construction loans do not have a sufficient supplementary dataset to support a stable and robust estimation of sensitivity to various macroeconomic conditions. Pooling construction loans together with income-producing loans in the logistic regression specification enables projections for construction loans that are forward-looking and capable of evaluating the impact of severe economic stress, aligning with Stress Testing Policy Statement principles.[59]

While the Board is finalizing this aspect of the CRE Model as described in the 2025 Credit Risk Models Documentation, to further assess the commenters' suggestions, the Board is proposing to collect additional data on construction projects in a transitional phase. The Board may consider alternative approaches in the future through its regular process of model development and validation.

Considering the purposes of the CRE Model,[60] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the CRE Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

[58] *See* 2025 Credit Risk Models Documentation, 70–71.

[59] *See* 12 CFR 252, Appendix B, sections 1.2, 1.7.

[60] *See* 2025 Credit Risk Models Documentation, 47–48.

d. Clarify treatment of FVO and disposed facilities

One commenter stated that the Corporate Model description in the 2025 Credit Risk Models Documentation describes how disposed facilities and FVO/HFS facilities reported in Schedule H.1 are excluded before projecting losses, but that the CRE Model description does not appear to address either population reported in Schedule H.2. The commenter recommended that the Board clarify whether disposed facilities and FVO/HFS facilities reported in Schedule H.1 and H.2 are treated consistently.

The Board has considered the comments submitted and has determined to update the 2026 Credit Risk Models Documentation to clarify that disposed facilities and FVO/HFS facilities are excluded from the CRE Model's loss projection process.[61] These updates do not reflect changes to the specifications of the CRE Model.

C. Wholesale General

1. FR Y-14Q Reporting Form

The Capital Assessments and Stress Testing information collection (FR Y-14) consists of the FR Y-14A, Q, and M reports, and collects detailed data from bank holding companies, intermediate holding companies, and covered savings and loan holding companies regarding various asset classes, capital components, and categories of pre-provision net revenue on a monthly or quarterly basis.[62] This data is used to support supervisory stress testing models and for continuous monitoring efforts.[63] Schedule H of the FR Y-14Q report collects data on

[61] *See* 2026 Credit Risk Models Documentation, Section A.ii.d(1).

[62] Board, Instructions for the Capital Assessments and Stress Testing information collection (Reporting Form FR Y-14Q), available at *https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_Y-14Q* ("Reporting Form FR Y-14Q Instructions").

[63] *Id.*

corporate and commercial real estate loans and leases along with supplemental information on firms' reported lines of business and internal risk ratings.[64]

a. Elimination of Fields

One commenter suggested that the Board should eliminate certain reporting fields related to fronting facilities, disposed facilities, commitments to commit, syndicated pipeline loans, and other fields related to obligor financial data from Schedule H.1 and H.2. The commenter argued that these fields do not impact stress test results and eliminating them would reduce reporting burden. In addition, this commenter recommended that the Board eliminate Schedule H.1, item 43 ("Interest Income Tax Status"), item 94 ("Prepayment Penalty Flag"), item 111 ("Obligor LEI"), and item 112 ("Primary Source of Repayment LEI") to reduce reporting burden. This commenter also, while recommending that the Board retain an item for leveraged loans in Schedule H.1 and H.2 with clarifications in the instructions permitting firms to flag leveraged loans according to their internal risk management framework, stated that the Board should rescind SR Letter 13-3 "Interagency Guidance on Leveraged Lending."

The Board has considered the comment submitted and is not proposing changes to Schedule H.1 or H.2 to eliminate reporting fields related to fronting facilities, disposed facilities, commitments to commit, syndicated pipeline loans, other fields related to obligor financial data, and Schedule H.1, item 94 ("Prepayment Penalty Flag"), item 111 ("Obligor LEI"), and item 112 ("Primary Source of Repayment LEI") for the reasons discussed below. The Board has previously adopted a revision to Schedule H.1 to remove item 43 ("Interest Income Tax Status") that is to be effective December 31, 2026.[65]

[64] *Id.* at 162.

[65] *See* 91 FR 29485 (May 20, 2026); Final Draft FR Y-14Q Reporting Form Instructions.

The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board is maintaining the requirement to report data related to fronting exposures, disposed facilities, commitments to commit, syndicated pipeline loans, and obligor financials on Schedule H.1 and H.2 as well as Schedule H.1, item 94 ("Prepayment Penalty Flag"), item 111 ("Obligor LEI"), and item 112 ("Primary Source of Repayment LEI"). Such data are valuable inputs for ongoing monitoring and benchmarking of the stress test models and to inform potential future model improvements, and alternative data sources are not reasonable substitutes for this data. For example, information on disposed loans is useful for default and EAD benchmarking and when evaluating loan prepayments. However, managing reporting burden is an important aspect of administering the supervisory stress test. The Board may explore schedule changes in the future through its regular process of model development and validation.

Comments recommending amendment of the leveraged lending flag or addition of a new field to ensure leveraged loans are identified in Schedule H are addressed in Section II.A.2 above. Modifications to SR Letter 13-3 are beyond the scope of this proposal. The Board monitors the effectiveness of its rules and guidance for potential improvements and may make changes in the future as appropriate.

Considering the purposes of the Wholesale Models,[66] as well as the comments received and the Board's responses above, the Board has determined to retain Schedule H.1 and H.2 reporting requirements to maintain critical supervisory monitoring and stress testing capabilities.

b. Regulatory Reporting Alignment

One commenter recommended that the Board remove language from the Schedule H.1 instructions on non-purpose margin loans given updates to include all margin loans in FR Y-9C, Schedule HC-C, item 9.b.(1) ("Loans for purchasing or carrying securities, including margin loans"), no longer require the reporting of overdrafts on Schedule H.1, and align the reporting of past dues with the FR Y-9C. One commenter recommended that the Board allow "rentable units" to be reported where applicable, instead of only square footage, when reporting Schedule H.2, item 23 ("Current Occupancy"), which is, the commenter argues, industry practice.

The Board considered the comment submitted recommending removing language on non-purpose margin loans from Schedule H.1, no longer requiring overdraft reporting on Schedule H.1, and aligning past due reporting with FR Y-9C. The Board is not proposing these changes for the reasons discussed below.

The Board considered the comment submitted recommending modifying the reporting requirement for Schedule H.2, item 23 ("Current Occupancy"). In a separate notice, the Board is proposing to revise the instructions to allow firms to report current occupancy as a percent of the rentable amount using the measurements described in Schedule H.2, item 39 ("Property Size").[67]

The Board has adopted revisions to the Corporate Model specification described in the 2025 Credit Risk Models Documentation to account for the new options reported in Schedule

[66] *See, e.g.*, 2025 Credit Risk Models Documentation, 7–10, 47–48.

[67] *See* 2027 Models and Reporting Proposal.

H.1, item 26 ("Line Reported on FR Y-9C"). The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[68]

The Board understands the value in aligning regulatory reports and aims to do so whenever possible. The Board proposed and finalized revisions to the FR Y-9C that would require non-purpose loans secured predominantly by securities with readily determinable fair value to be reported in FR Y-9C, Schedule HC-C, item 9.b.(1) ("Loans for purchasing or carrying securities, including margin loans"). These loans are not reported in Schedule H.1, as Schedule HC-C, item 9.b.(1) is not a reportable category.[69] However, the Board understands that some non-purpose loans collateralized by securities do not satisfy all the criteria necessary to be reported in Schedule HC-C, item 9.b.(1). The Board has determined that some non-purpose margin loans remain appropriately reported on Schedule H.1 and, consequently, is not proposing removing the non-purpose margin loan language from the Schedule H.1 instructions. The Board requires overdraft reporting on Schedule H.1 to align with the reporting requirements of FR Y-9C Schedule HC-C. Therefore, removing the overdraft reporting requirement would create an unnecessary and undesirable difference between the regulatory reports.

Regarding Schedule H.2, item 23 ("Current Occupancy"), in order to reduce reporting burden and in alignment with commenters' recommendations, the Board is proposing revising the instructions to allow firms to report current occupancy as a percent of the rentable amount using the measurements described in Schedule H.2, item 39 ("Property Size").[70]

[68] *See* 2026 Credit Risk Models Documentation, Section A.i.

[69] *See* 91 FR 29485 (May 20, 2026).

[70] *See* 2027 Models and Reporting Proposal.

The Board has assigned the new non-depository financial institutions options reported in Schedule H.1, item 26 ("Line Reported on FR Y-9C") to "Loans to Financial Institutions."[71] This preserves the previous mapping of "7. Loans to non-depository financial institutions (Schedule HC-C, item 9.a)," which has been superseded by the new, more granular, categories.

c. FR Y-14Q, Schedule H.4 (Internal Risk Rating) Reporting Frequency

One commenter stated that internal risk rating definitions are largely static, so the Board should reduce the frequency of the collection of internal risk ratings on Schedule H.4 from quarterly to annually, or only require reporting when there is a change to an internal risk rating.

The Board has considered the comment submitted and is not proposing to modify the reporting frequency of Schedule H.4. As noted when Schedule H.4 was proposed, the prior process for defining internal risk ratings was manual and relied on periodic communication with firms outside of the FR Y-14 report.[72] Internal risk ratings change frequently and ongoing monitoring is required to understand these changes. Although the collection of Schedule H.4 added reporting burden, it replaced the burden of the unstructured collection process. Introducing Schedule H.4 formalized the reporting process and significantly improved data quality and consistency of reporting while reducing operational risk and overall burden. Reducing the frequency to an annual cadence would limit the Board's ability to monitor risks during the year. Altering the schedule to require reporting only when there is a change to an internal risk rating would also add complexity to the instructions without meaningfully reducing reporting burden, since submitting values that are unchanged since the prior quarter is

[71] *See* 2026 Credit Risk Models Documentation, Section A.i. The new non-depository financial institution options were adopted in December 2025. *See* 90 FR 56756 (Dec. 8, 2025).

[72] *See* 84 FR 37292, 37299 (July 31, 2019); 84 FR 70529 (Dec. 23, 2019).

straightforward. The Board has determined that the current quarterly reporting cadence is appropriate and is not modifying the reporting frequency of Schedule H.4 at this time.

d. Schedule H Reporting Threshold

One commenter requested that the threshold for reporting a facility on Schedule H.1 be raised from $1 million to $5 million and asserted that doing so would reduce burden and have an insignificant impact on stress test results.

The Board considered the comment submitted and is not proposing to increase the reporting threshold to prevent meaningful changes in firm-specific projected losses. While the comment specifically addresses the reporting threshold for Schedule H.1, the same reporting threshold also applies to Schedule H.2. Eliminating cross-schedule interactions would require significantly greater revisions to the reporting instructions, increase operational complexity, and require reporting firms to make further changes to their internal processes. The Board performed analysis that evaluated the impact of raising the reporting threshold jointly for both Schedule H.1 and H.2. The analysis showed that raising the reporting threshold to $5 million would result in meaningful firm-level changes in projected losses, and that those changes are distributed disproportionately across firms. Given that this analysis demonstrates that there would be meaningful and disproportionate firm-level changes in projected losses, the Board is not proposing to revise this reporting threshold.

e. Edit Checks

One commenter stated that the Board should remove edit checks that tend to produce false positives and establish an acceptance threshold on the FR Y-14Q edit checks. The Board considered the comment submitted and is not proposing to modify the edit check process in the FR Y-14Q. The Board relies on the timely and accurate reporting of FR Y-14 data for the annual Dodd-Frank Act Stress Test (DFAST) as well as regular assessments of risk and associated risk

management practices. Edit checks are necessary to verify data accuracy, ensure structural consistency, and identify reporting errors. The Board has determined that these FR Y-14Q edit checks are functioning as intended. Managing reporting burden is an important aspect of administering the supervisory stress test. The Board may explore schedule changes in the future through its regular process of model development and validation.

2. Geography

Comments regarding the Board's approach to geographic differentiation are addressed below in Section II.H.

3. Climate risk

One commenter recommended that the Board explicitly incorporate extreme weather risk into the stress testing loss models because standard macro-driven PD or LGD models do not fully reflect the potential losses arising from such events. Treatments include modeling the effects of acute extreme weather shocks on borrower performance, collateral values, operational losses, and regional asset quality deterioration, which would in turn be input to the loss modeling and capital aggregation framework. The commenter also suggested additional treatments, such as incorporating insurance volatility into loss projections.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Model Documentation. The sensitivity of PD, LGD, and EAD to the macroeconomic and regional effects of historical extreme weather shocks are sufficiently captured through the calibration of parameters on historical estimation samples. Performance testing shows that the models are specified at an appropriate level of granularity and that the models do not systematically underpredict credit loss, suggesting that the models are well-suited to capture various types of shocks contained within the historical data.

Considering the purposes of the models,[73] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the models to be appropriate for the supervisory stress test, and has adopted the models as proposed.

D. First Lien Mortgage Model and Home Equity Model

The Domestic First Lien Mortgage Loss model (First Lien Model) is used to project loan losses and provisions on domestic first lien mortgages, which are first lien, closed-end[74] exposures secured by one- to four-family residential real estate located in the United States, as defined by the FR Y-9C, that are held for investment at amortized cost.

The Domestic Home Equity Loan Loss model (Home Equity Model) is used to project loan losses and provisions on domestic home equity exposures, which include closed-end junior-lien home equity loans (HELs) and home equity lines of credit (HELOCs), which are revolving, open-ended loans. HELs and HELOCs (the two home equity "products" or "product types") are secured by one- to four-family residential real estate located in the United States, as defined by the FR Y-9C, that are held for investment at amortized cost.

The First Lien Model and Home Equity Model are important for accurately assessing whether firms would be sufficiently capitalized in a severe stress scenario, because stress in the residential real estate sector could lead to significant losses to first lien, HEL, and HELOC portfolios.[75]

[73] *See, e.g.*, 2025 Credit Risk Models Documentation, 7–10, 47–48.

[74] Loans are "closed-end" when a fixed amount is borrowed with a scheduled repayment date, as opposed to "open-ended" loans where the credit line remains open and the loan amount can increase or decrease over time.

[75] 2025 Credit Risk Models Documentation, 118–19, 264–65.

The Board received a number of comments on the proposed models. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. First Lien and Home Equity Probability of Default Models

As described in the 2025 Credit Risk Models Documentation, the probability that a domestic first-lien loan transitions to a different payment status (i.e., current, delinquent, default, and paid off), based on the prior status of the loan as well as characteristics of the loan and the macroeconomic environment, would be projected by a probability of default model (the "First Lien PD Model").[76] The probability that a home equity loan transitions to a different payment status (i.e., current, delinquent, default, and paid off), based on the prior status of the loan as well as characteristics of the loan and the macroeconomic environment, would be projected by a probability of default model (the "Home Equity PD Model").[77]

Some commenters recommended that the Board apply the post-crisis vintage effects used in model estimation when projecting defaults in the First Lien PD Model. The commenters, to support their argument, asserted that origination standards have improved since 2002–2005 and it is unlikely that recently originated loans would behave similarly to loans made over 20 years ago. One commenter also argued that estimating the First Lien PD Model with vintage effects but excluding these effects in projections would not be conceptually sound, as the decision would affect coefficients on other variables.

Two commenters argued that models should consider more granular loan origination channels, such as mortgage loans originated through wealth management or private banking

[76] 2025 Credit Risk Models Documentation, 121.

[77] 2025 Credit Risk Models Documentation, 269.

channels, within the Home Equity PD Model and the First Lien PD Model, because loans originated through these channels historically have lower default rates than loans originated through other channels with similar other characteristics.

Two commenters recommended that in the First Lien Model and Home Equity Model, the probability of default ("PD") and loss given default ("LGD") models should account for the fact that not all defaulted loans will proceed to liquidation. Additionally, one of these commenters argued that the proposed models would lead to an inconsistency between the definitions of default used in the probability of default models and in the loss given default models, as the probability of default models are estimated on loans that reach 180 or more days past default, whereas loss given default models are estimated only based on loans that proceed to liquidation. Furthermore, one of these commenters asserted that cure rates have increased in recent years due to the increasing prevalence of loan modification and loss mitigation programs.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

As described in the 2025 Credit Risk Models Documentation, the Board proposed to treat loans originated in and after 2009 as having the same vintage effects as loans originated between 2002 and 2005.[78] While commenters asserted that some risk factors, such as underwriting quality, have improved since the period before the financial crisis, other risk factors—such as borrowers' propensity to engage in fraud or borrowers de-prioritizing mortgage payments compared to their other liabilities—could potentially remain, and may be unobservable until

[78] *See* 2025 Credit Risk Models Documentation, 157–58, 165.

another downturn in the housing market.[79] Furthermore, some changes in borrower behavior (such as payment prioritization) are based on future expectations in housing price movements such that the contemporaneous housing price control that is currently in the model may not capture this as effectively as vintage effects. Retaining the proposed approach is consistent with the stress testing principle of conservatism,[80] as recent originations may be less precisely estimated, in part because they have not yet been exposed to a housing downturn. In contrast, the "bubble vintages" (2006-2008 for FRM and 2005-2008 for ARM) have higher delinquency rates than base pre-bubble vintages, so these vintage effects are used in the projection, similarly reflecting the Board's modeling principle of conservatism.[81]

As described in the 2025 Credit Risk Models Documentation, the Board proposed a simple application of the origination channel variables, using a retail indicator in the First Lien PD Model and a wholesale indicator in the Home Equity PD Model.[82] Two commenters suggested using FR Y-14M data to compare predicted and realized PDs by origination source (notably, for wealth management and private banking) and using that assessment to calibrate an adjustment to predicted PD to account for more granular origination channels, asserting that the number and share of loans originated through wealth management and private banking channels has increased in recent years, and that these balances have historically lower loss rates. However, whether a loan was originated via a wealth management or private banking channel cannot be identified in the data used to calibrate the First Lien or Home Equity PD Model coefficients, and given that FR Y-14M data has only been reported since 2012, this information

[79] *See* 2025 Credit Risk Models Documentation, 157–58.

[80] 12 CFR 252, Appendix B, section 1.6.

[81] *Id.*

[82] *See* 2025 Credit Risk Models Documentation, 158, 165, 302, and 309–10.

is not available during the 2007-2009 financial crisis, where the performance of these loans during a housing downturn could be assessed. Despite commenters' recommendation that the Board calibrate the coefficients by instead scaling up or down the PD output by model, introducing such a scalar adjustment would increase complexity in the model in exchange for increasing granularity for only a small minority of the overall loan population, in opposition to the Board's modeling principle of simplicity.[83] While the Board is not incorporating an adjustment for loans originated through wealth management or private banking channels, the Board may consider changes in the future through its regular process of model development and validation.

The Board also considered comments on the Board's proposal to assume that all defaulted loans proceed to liquidation in the First Lien Model and Home Equity Model.[84] While cures from 180 or more days past due are observed in the First Lien PD Data, they are rare, as discussed in the 2025 Credit Risk Models Documentation.[85] While cure rates were higher in the historical FR Y-14M data than in the First Lien PD data, they remain low in all periods except for during the pandemic period in 2020 and 2021. The elevated cure rate in this period was due to temporary pandemic-specific programs. However, reflecting the elevated cure rates during this period in the model would not align with the Board's modeling principle of being forward-looking.[86] Further, the First Lien and Home Equity PD and LGD models' default definition is also consistent with the FFIEC Uniform Retail Credit Classification and Account Management

[83] 12 CFR 252, Appendix B, section 1.4.

[84] 2025 Credit Risk Models Documentation, at 151–52, 296–97.

[85] *Id*.

[86] 12 CFR 252, Appendix B, section 1.2.

Policy, which requires lenders to charge-off projected losses at no later than 180 days.[87] Given that cures are rare, especially during stress periods, it is a reasonable, conservative assumption to assume that all defaulted loans will proceed to liquidation when assigning LGD. Therefore, the Board's assumptions regarding cures are also consistent with its modeling principles of simplicity and conservatism.[88] Not allowing for default cures would remove the need to estimate an additional transition equation in the model, which would increase the complexity of the model and be challenging to fit given how infrequent cures are in the historical data, potentially leading to an imprecise estimate. Finally, cure rates would be likely to decline during a period of serious and prolonged housing market stress; cure rates in recent years have occurred in the backdrop of a strong housing market. The First Lien and Home Equity PD and LGD models are consistent in that they conservatively assume that, given a period of economic stress concentrated in the housing market, loans that reach 180 or more days delinquent will proceed to liquidation.

Considering the purposes of the First Lien Model and Home Equity Model,[89] as well as the comments received and the Board's responses above, the Board considers the specification of the First Lien and Home Equity PD models to be appropriate for the supervisory stress test, and has adopted the models as proposed.

2. First Lien and Home Equity Loss Given Default Models

As described in the 2025 Credit Risk Models Documentation, the Board proposed to project the percent of loan balance that a lender would not be able to recover after a borrower

[87] 2025 Credit Risk Models Documentation, 149.

[88] 12 CFR 252, Appendix B, sections 1.4, 1.6.

[89] 2025 Credit Risk Models Documentation, 118–19, 264–65.

enters default through the First Lien LGD Model.[90] The Home Equity Model would then draw on the First Lien LGD Model to produce projections of LGD for HELs and HELOCs.[91]

One commenter recommended that the First Lien LGD Model and Home Equity LGD Model not treat all loans as private label MBS ("PLS"), as their loss severities are 5–9 percentage points higher than agency loss severities, but should rather include indicators for whether a portfolio loan would be securitized by an agency MBS or PLS. This commenter also recommended that the data sample period for these models be extended to include data from 2015 through 2022, to match the period used by the First Lien PD Model, asserting that, although this extension may not have a significant impact on results, calibrating the probability of default over the same time horizon would allow for a more coherent model with consistent datasets.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

As described in the 2025 Credit Risk Models Documentation, the Board proposed to estimate the First Lien LGD Loss Severity Model equations by including a variable to identify in which of the two data sources the defaulted loan was observed. When projecting loss given default, the model treats all loans as if they have the risk characteristics associated with PLS, rather than that of government sponsored entity ("GSE" or "agency") MBS loans.[92] Although one commenter recommended that the LGD Model include an indicator for whether a portfolio loan would be securitized by agency MBS or PLS to capture differences in loss severity, the

[90] 2025 Credit Risk Models Documentation, 201.

[91] 2025 Credit Risk Models Documentation, 337.

[92] 2025 Credit Risk Models Documentation, 219.

modeling decision to treat these loans as PLS loans should not be considered to indicate a stance regarding which type of securitization in which the loan would be included, if it were securitized. Rather, given that it is not clear whether the portfolio loans for which the First Lien Model projects losses will behave more similarly to the loans in the PLS data or the loans in the GSE data upon default, the model applies a simple, conservative assumption, consistent with the Stress Testing Policy Statement principles.[93]

As described in the 2025 Credit Risk Models Documentation, the Board proposed to use an LGD sample period that differs for the First Lien PD Model and First Lien LGD Model. As a result, while the PD Model is estimated on data through 2022, the LGD Model sample period ends in 2015. This sample period still covers the vast majority of defaulted loans in the historical data since, as per the 2025 Credit Risk Models Documentation, less than 15 percent of the total liquidations observed in the data have occurred since 2015.[94] While there may be value in bringing in additional data into model estimation periods to ensure a sample does not become stale, it remains reasonable to use different sample periods in estimating different model components because the individual models are appropriately tested for suitability and reasonableness. In this case, the Board updated the First Lien PD Model to address the challenges of using the pandemic data to project mortgage default, capture the effect of the unique 2020 macroeconomic environment on mortgage prepayment, and capture the beginning of the higher interest rate period that followed the pandemic.[95] The LGD Model is not demonstrably impacted by these distortions and therefore, updating this component is not immediately necessary to produce reasonable model projections. The Board regularly monitors

[93] 12 CFR 252, Appendix B, sections 1.4, 1.6.

[94] 2025 Credit Risk Models Documentation, 222.

[95] 2025 Credit Risk Models Documentation, at 261–63.

the performance of the model components using back-testing analysis to ensure that model performance remains sufficient for the model to be used in the stress test. To date, this monitoring has shown that model performance remains stable and that LGD estimates remain appropriate. The Board will continue to monitor model performance and may consider changes in the future, such as incorporating additional data into the model estimation sample, through its regular process of model development and validation.

Comments regarding the First Lien and Home Equity LGD models' assumption that all defaulted loans will proceed to liquidation are addressed above in Section II.D.1.

Considering the purposes of the First Lien Model and Home Equity Model, as well as the comments received and the Board's responses above, the Board considers the specification of the First Lien and Home Equity LGD models to be appropriate for the supervisory stress test, and has adopted the models as proposed.

3. Home Equity Exposure at Default Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to project that exposure at default ("EAD") for open HELOCs that have not reached end of draw at the time of default will be the higher of the unpaid principal balance at the start of the projection horizon and the original credit limit.[96]

One commenter recommended that the EAD assumption be updated to either reflect losses only on the unpaid principal balance, or to estimate utilization rates during periods of stress based on historical industry experience. The commenter asserted that the Board's assumption is inconsistent with the static balance sheet assumption and historical experience

[96] 2025 Credit Risk Models Documentation, 347–48.

under stress, and does not consider the lender's ability to cancel or freeze draw activity for HELOCs.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

As described in the 2025 Credit Risk Models Documentation, the Board's EAD assumption for HELOCs is reasonable and consistent with the principles of conservatism and simplicity from the Policy Statement.[97] Despite the commenter's assertion that the assumption is inconsistent with the constant balance sheet assumption, and that firms can cancel or freeze draw activity on existing lines, a motivator of the constant balance sheet assumption is to ensure that firms can continue to lend during times of stress.[98] Therefore, it is important to consider the potential for additional draws on committed balances, as assuming that lenders will limit draw activity implicitly assumes that credit supply would be restricted during the scenario. Regarding the commenter's assertion that the EAD assumption is inconsistent with historical data, the Home Equity PD data shows that, while it is the case that many HELOC borrowers do not make additional draws prior to default, of those who do, they tend to draw all or virtually all of the remaining committed balance; furthermore, the share of borrowers making draws prior to default was substantially higher in the 2007-2009 financial crisis period. See the 2025 Credit Risk Models Documentation at 350-351 for additional information and support for the Board's assumption.

[97] 12 CFR 252, Appendix B, sections 1.4, 1.6.

[98] 12 CFR 252, Appendix B, section 2.7(a).

Considering the purposes of the Home Equity Model, as well as the comments received and the Board's responses above, the Board considers the specification of the Home Equity EAD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

E. Credit Card Model

The domestic credit cards loan loss model ("Credit Card Model") is used to project loan losses and provisions on domestic credit card exposures to individuals that are held by firms for investment at amortized cost as described in the 2025 Credit Risk Models Documentation.[99] Due to the high historical loss rates of credit cards during periods of economic stress, high credit card balances among firms subject to the supervisory stress test, and the concentration of certain firms in credit card lending, producing appropriate projections of credit card losses during a hypothetical macroeconomic shock is paramount to the accuracy of the supervisory stress test.[100] The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. Credit Card Probability of Default Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to use a probability of default model ("Credit Card PD Model") that would estimate the probability that an account transitions to default in a particular quarter, given its starting payment status, account characteristics, and borrower characteristics, as well as macroeconomic variables; in particular, the unemployment rate.[101]

[99] 2025 Credit Risk Models Documentation, 384.

[100] 2025 Credit Risk Models Documentation, 385.

[101] 2025 Credit Risk Models Documentation, 392.

a. Use of 120-day (5-cycle) default definition

Several commenters recommended that the definition of default for bank cards be changed from five or more cycles (120 or more days) past due to 180 or more days past due, for a variety of reasons. First, one of these commenters argued that a definition of 180 or more days past due would more closely align with the 180 days past due definition used by banking organizations that use the Basel II framework. Second, the same commenter argued that the proposed definition would create a disconnect between estimated defaults and recoveries, as recoveries data is only observed after the account charges off, which would result in firms not having any observed recoveries for all accounts at five or more cycles past due since they may only be observed at 180 or more days past due. Third, other commenters argued that this definition would be shorter and more conservative than the definition used by the FFIEC, which is 180 days. As a result, defaults and charge-offs would be "pulled forward," creating higher early projection horizon losses. Finally, the commenters argued that the shorter time to default for credit cards (five or more cycles past due) would cause additional issues across models, and would also not align with actual charge-offs practices that are taken at 180 or more days past due. Commenters stated that this would result in recognition of defaults at the start of the projection that are not, in practice, defaulted.

The Board has considered the comments submitted and has determined to finalize the definition of default as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

As described in the 2025 Credit Risk Models Documentation, the Board proposed to define default as five or more cycles past due.[102] While commenters raised concerns regarding

[102] 2025 Credit Risk Models Documentation, 386–87.

the treatment of accounts that are defaulted (but not charged off) at the start of the projection and how the default definition affects the timing of losses, the Board has assessed that the treatment is appropriate. Almost all accounts that are five or more cycles past due will ultimately charge off, based on historical patterns observed in the FR Y-14M data, such that the Board's model effectively identifies accounts at high risk of generating losses. Additionally, the use of a 180 or more days-past-due definition would introduce data quality concerns for charged-off accounts and correcting these issues may require firms to resubmit historical data, which would increase reporting burden for firms subject to the supervisory stress test.[103]

Regarding the defaulted-but-not-charged off accounts, the Board's default definition includes careful treatment of these accounts at the start of the projection window. To avoid a spike in projected losses in the first projection quarter due to defaulted accounts at jump-off, the Board smooths these losses over five quarters.[104] Regarding the timing considerations, the approach causes losses to be recognized earlier than they would be using a 180 or more day default definition. However, given that the Board determined that a five or more cycles past due definition was appropriate for the reasons described above, the Board assigns losses in the quarter that the account defaults. If the Board were to shift the timing of loss realization to the time where the loan becomes 180 days past due, this would require determining the share of the projected defaults in each quarter that would be realized in the future quarter, and adding additional model logic to make this shift. The Board's approach avoids the complexities that an ex-post adjustment to the timing of loss realization would entail. This is consistent with the

[103] 2025 Credit Risk Models Documentation, 386–88.

[104] 2025 Credit Risk Models Documentation, 479.

Stress Testing Policy Statement principle of simplicity, and further consistent with the conservative, forward-looking nature of the stress test.[105]

As described in the 2025 Credit Risk Models Documentation, the Board has estimated that approximately 98 percent of accounts that reach five cycles past due are ultimately charged off during economic stress.[106] Given this high eventual charge-off rate, the five or more cycles past due definition effectively captures the same accounts while providing earlier loss recognition that better reflects stress dynamics. Because of the high transition rate from default to charge-off, the Board assessed that a 180 or more days past due definition would not substantially change overall default projections. Given that cure rates between five and seven cycles past due accounts are expected to be more rare under stress than in baseline conditions, the choice of default definition would likely not meaningfully change the LGD calibration. However, as mentioned in the 2025 Credit Risk Models documentation,[107] the Board observed a deterioration in the quality of data reported after accounts become seriously delinquent, reducing the reliability of the model in determining the frequency with which accounts that are five or more cycles past due proceed to 180 or more days past due. Therefore, using accounts that are 180 or more days past due would implicate challenging trade-offs related to the handling of poor quality or missing data and would require firms to resubmit historical data on accounts close to charge-off, increasing firm reporting burden.

Some commenters expressed concerns about how the Board's proposed default definition affects the timing of projected losses. Given the high share of accounts at five cycles past due that ultimately charge off, the Board must address the risk associated with accounts that are

[105] 12 CFR 252, Appendix B, sections 1.2, 1.6.

[106] 2025 Credit Risk Models Documentation, 387.

[107] 2025 Credit Risk Models Documentation, 387–88.

defaulted by the Board's definition but not yet charged off by firms at jump-off. To do this, the Board smooths these losses over projection quarters 2–5 rather than recognizing them immediately in the first projection quarter.[108] This smoothing avoids an immediate, concentrated loss recognition that could create a larger common equity tier 1 trough. This approach accounts for the likelihood that these loans will eventually default while avoiding a spike driven purely by accounting differences.

Finally, commenters raised concerns that the five-cycle definition accelerates loss recognition by two months compared to a 180-day definition, causing accounts to realize losses before they are charged-off. However, given that the Board determined that a five or more cycles past due definition was appropriate for the reasons described above, the Board assigns losses in the quarter that the account defaults to avoid the complexities that an ex-post adjustment to the timing of loss realization would entail. This is consistent with the Stress Testing Policy Statement principle of simplicity, and further consistent with the conservative, forward-looking nature of the stress test.[109]

Considering the purposes of the Credit Card Model, as well as the comments received and the Board's responses above, the Board considers the five or more cycles past due definition of default for bank cards to be appropriate for the supervisory stress test, and has adopted this aspect of the models as proposed.

b. Including additional risk characteristics and macroeconomic drivers in Credit Card PD Model

The Board received comments recommending the addition of certain risk characteristics and macroeconomic drivers in the Credit Card PD Model. One commenter recommended that

[108] 2025 Credit Risk Models Documentation, 479.

[109] 12 CFR 252, Appendix B, sections 1.2, 1.6.

the Board expand the set of customer attributes and behavioral variables considered in the probability of default model. Another commenter recommended that the Board expand the variable set used in the Credit Card PD Model to include household wealth proxies, such as home price appreciation. One commenter recommended that the Board expand the set of macroeconomic drivers used in the Credit Card PD Model; as well as expand the set of customer attributes and behavioral variables considered, including by differentiating transactors from revolvers, minimum payment amounts, payment ratios, and payment-burden dynamics. Per these commenters, the addition of these characteristics and drivers would improve model projections.

The Board has considered the comments submitted and has determined to finalize the risk characteristics and macroeconomic drivers of the Credit Card PD Model as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

While the inclusion of some of the variables suggested by the commenters could have the potential to improve granularity in the model, the Board has determined to maintain the model in its current form, at this time. There are limitations on the model specification due to the available data. Some variables that may be informative to projecting credit card defaults, such as whether a borrower is a transactor, or if the payment ratio can be identified or calculated based on the available data, but other variables, such as those requiring household-level income data, cannot be identified or calculated.[110] However, even for certain variables that are available, it can be challenging to account for the dynamics of these variables. For instance, payment ratios tend to fall during periods of economic stress, but calibrating the extent of this reduction would be complex because they can vary across types of borrowers and across macroeconomic

[110] For additional discussion of these variables, see 2025 Credit Risk Models Documentation, 441–46.

environments. The Board also considered that the model performs well during periods of prolonged high unemployment, meaning that any improvements to the model would most impact benign periods rather than projections under the severely adverse scenario. Finally, redesigning the model with additional customer attributes, behavioral variables, or macroeconomic proxies would require a significant amount of further research and development effort. Given that the model projections are reasonable under stress, it is appropriate to maintain the current model at this time. While the Board is finalizing this aspect of the Credit Card Model as described in the 2025 Credit Risk Models Documentation, the Board may consider changes in the future through its regular process of model development and validation.

Considering the purposes of the Credit Card Model, as well as the comments received and the Board's responses above, the Board considers the risk characteristics and macroeconomic drivers of the Credit Card PD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

c. Modeling account closures/attrition in the Credit Card PD Model

The Board received comments recommending that the Credit Card PD Model incorporate attrition due to account closures. One of these commenters recommended that the Board use a new model component for including an estimate of voluntary closure status in the forecast, which would feed into the survival probability function and help moderate conditional probabilities of default, asserting that their voluntary closure rate could reduce survival probability. Another commenter asserted that the methods used in the Credit Card PD Model ignore non-default attrition, which would bias the unconditional probability of default upward. This commenter also argued that, due to the prevalence of inactive and voluntary closures (in both stressed and benign periods), the impact of ignoring non-default attrition can lead to overestimated losses. Another commenter, citing empirical analysis, argued that not considering

the interdependency between prepayments and default risks could lead to serious error in default risk estimation.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

The Board determined that modeling account closures is not necessary given that accounts that close during the projection period are not dropped from the estimation sample in periods following the closure date. Because these account closures are not dropped from the estimation sample, there is consistency between the approach used in estimation (keeping the closed accounts) and projection (making no adjustment in the survival probability calculation for account closures), and as a result there is no bias introduced into the unconditional probability of default projection.

The Board also considered several suggestions made by commenters, including to "re-estimate the PD model directly on an unconditional basis where non-default closures are not removed from the risk set." This is already a feature of the Credit Card PD Model and so the Board has updated the 2026 Credit Risk Models Documentation to clarify that this reflects the methodology of the model described in the proposal.[111]

While the Board is finalizing this aspect of the Credit Card PD Model as described in the 2025 Credit Risk Models Documentation, the Board may consider alternative approaches in the future through its regular process of model development and validation.

[111] *See* 2026 Credit Risk Models Documentation, Section E.ii.a.1.

Considering the purposes of the Credit Card Model, as well as the comments received and the Board's responses above, the Board considers the specification of the Credit Card PD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

2. Credit Card Loss Given Default Model

a. Recalibrate LGD

As described in the 2025 Credit Risk Models Documentation, the Board proposed a Credit Card LGD Model that would project the share of the exposure at default ("EAD") that a lender would not be able to recover after the borrower enters default.[112]

Two commenters recommended the Board refine its Credit Card LGD Model to better reflect observed recovery trends, presenting data to support their assertion that the proposed 90 percent LGD rate is overly conservative and that recovery rates across diverse portfolios range from 13 percent to 20 percent. One of these commenters asserted that the proposed loss-given-default rate would introduce systematic bias towards certain recovery strategies and overstate loss severity for portfolios worked out in-house relative to early debt sales, and recommended that the Board instead recalibrate the Credit Card LGD Model by leveraging granular, account-level data available through the FR Y-14M and FR Y-9C reporting forms to either: (i) include firm-specific fixed effects to account for varying recovery efficiencies, (ii) estimate recovery rates by channel of recovery (i.e., internal servicing vs. debt sales), or (iii) recalibrate stress LGD values based on more recent empirical trends in recovery performance.

[112] 2025 Credit Risk Models Documentation, 448.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

Unlike the PD and EAD models, which are based on account-level data, the Credit Card LGD Model uses industry average historical data reported on the FR Y-9C. This decision was made due to limited availability of recovery information during periods of historical stress. In particular, the Board's calibration of LGD uses industry average recovery rates during the 2007-2009 financial crisis period.[113] This is in alignment with the Stress Testing Policy Statement principles of consistency and comparability and the focus on the ability to evaluate economic stress. Additionally, calibrating the LGD based on firm-specific, rather than industrywide, data would contradict the Board's policy to generally not incorporate firm-specific fixed effects.[114] Finally, estimating recovery rates by channel of recovery would require an additional model component to determine which accounts would be sold upon charge-off versus resolved in-house, which would be challenging to implement, add complexity, and conflict with the principle of simplicity from the Stress Testing Policy Statement.

Considering the purposes of the Credit Card Model, as well as the comments received and the Board's responses above, the Board considers the specification of the Credit Card LGD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

[113] 2025 Credit Risk Models Documentation, 448.

[114] 12 CFR 252, Appendix B, section 2.4(c).

3. Credit Card Exposure at Default Model

As described in the 2025 Credit Risk Models Documentation, the Board proposed to estimate the EAD[115] for credit cards using a model that calculates EAD for a given bank card account that defaults at a specific time, and a simpler model that projects EAD, as a fixed percentage of the balance reported at the start of the projection period, for charge cards (together, the "Credit Card EAD Model").[116]

a. Recalibrate delinquent interest and fee reversal assumptions

The 2025 Credit Risk Models Documentation stated that the Bank Card EAD Model would assume that 6 percent of projected EAD consists of delinquent interest and fees, and would adjust EAD downward by this amount to avoid double counting losses that would also be included in PPNR projections.[117] Several commenters recommended that the Board increase the assumed share of interest and fees, stating that the Board's calibration would be lower than the actual share of defaulted balance that consists of interest and fees. One commenter also recommended that the Board use the share of interest and fee balance at 180 days past due to calibrate this parameter because this aligns with the charge-off definition used by firms, even though the Board uses a default definition that aligns with approximately 120 days past due[118] in the EAD Model.

[115] Exposure at default is equal to the sum of the amount outstanding on the account at the start of the projection horizon and the estimated amount of the credit line that is likely to be drawn down by the borrower between the beginning of the projection horizon and the time of default.

[116] 2025 Credit Risk Models Documentation, 390.

[117] 2025 Credit Risk Models Documentation, 462.

[118] Formally, defined as 5 cycles past due.

The Board has considered the comments submitted and has determined to update the Bank Card EAD Model to apply an 8 percent interest and fee share, rather than the 6 percent share described in the proposal, for the reasons discussed below.

The Board performed additional analysis and determined that it is appropriate to set the interest and fee share at 8 percent, rather than 6 percent as was proposed. To calibrate the assumption, the Board aggregates all interest and fees, net of any payments made, starting from the cycle after the account was last current until it triggers the default definition used by the Board. Accounts that have remained delinquent for more than 12 billing cycles are excluded in this calculation. This calculation results in a projected share of interest and fees consistent with an 8 percent reversal share.

While an 8 percent reversal share is higher than the share in the proposed model, it remains lower than some commenters recommended. The lower share reflects the following considerations:

(1) The reversal calculation accumulates interest and fees over four billing cycles to keep consistent with the default definition used in the Card PD and EAD models. This is discussed in more detail below.

(2) The reversal share was calibrated using data from the post-CARD Act lower-interest-rate period (2011-2015 and 2021) to align with the supervisory severely adverse scenario's interest rate condition. Credit card interest rates typically float, as they are often tied to the prime rate, such that interest and fees will be lower during periods when short-term interest rates are zero, all else equal. Since the severely adverse scenario typically includes rapid declines in the prime rate, calibration using these periods is most appropriate.

(3) The calculation deducts post-delinquency payments from gross interest and fees to reflect net reversals. This conservatively assumes that lenders will apply payments to interest and fees first, before applying them to principal.

As noted above, the Board calibrates this assumption based on a default definition approximately equivalent to 120 days past due. This is because the adjustment is meant to determine the share of the projected EAD that consists of interest and fees that will be reversed, and therefore, it is necessary to align the methodology with the definition of default used in the Bank Card EAD Model.[119] Since exposure at 120 days past due is generally lower than exposure at 180 days past due mainly due to additional interest and fees, the interest and fees reversal ratio calibrated at 120 days past due is lower than it would be if it were calculated at 180 days past due. Using the larger ratio based on the 180 days past due default definition would overstate the share of the projected EAD that consists of interest and fees.

The Board validated the methodology using several robustness tests with alternative data sources or methodologies. First, the Board used an "indirect approach" to estimate the interest and fee share at the time of default. The Board calculated the difference between the balance at the time of default (per the model's definition) and the first delinquent balance, and then subtracted any new additional draws (the sum of purchases, balance transfers, and cash advances) to avoiding counting balance accrual unrelated to interest and fees, while re-adding payments made during this period for the same reason. This approach also yielded a reversal share consistent with the 8 percent calibration.

Second, the Board carried out a modified version of a simple approximation suggested by one commenter. To implement this approximation, the Board obtained the average credit card

[119] 2025 Credit Risk Models Documentation, 456.

interest rate from a publicly available source, then reduced this interest rate based on the decline in the U.S. Prime rate expected during the severely adverse scenario. The Board then used this reduced interest rate to calculate interest accrued over 120 days (consistent with the default definition used in the model). The output was then scaled up to account for fees, based on the ratio of interest to fees typically observed during low-interest-rate periods. Finally, the Board reduced the calculated value to reflect post-delinquency payments, yielding a final result consistent with the 8 percent calibration.

Third, the Board reviewed the share of the sum of reversals and gross charge-offs that consists of reversals during low-interest-rate periods reported on FR Y-9C Schedule HI-B by institutions with significant credit card portfolios. This share is higher than the 8 percent level used in the final Bank Card EAD Model. First, as noted above, the Bank Card EAD Model uses a default definition corresponding to approximately 120 days past due. Additionally, the Board's calibration nets out post-delinquency payments, which may be included in the amounts reported, as the instructions indicate that reversals should be reported gross of any recoveries. Considering these factors, this analysis is consistent with a reversal share of 8 percent.

Considering the purposes of the Credit Card Model, as well as the comments received and the Board's responses above, the Board considers the revised interest and fee share specification of the Credit Card EAD Model to be appropriate for the supervisory stress test, and has updated the model accordingly.

b. Reconsider approach to rapid charge-offs

Two commenters recommended that the Board reconsider its approach to the exclusion of rapid charge-offs; one of these commenters asserted that although the exclusion may reasonably remove implausible delinquency transitions, it could also exclude legitimate, non-delinquency-

driven charge off events such as bankruptcy or fraud, which could introduce selection bias and a consistency problem between PD and EAD models.

The Board has considered the comments submitted and has determined to finalize the approach to the exclusion of rapid charge-offs as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

The Board recognizes that a minority (about 10 percent) of defaulted accounts in the "bank card" data do not ever reach 5 or more cycles past due, based on calculations from the FR Y-14M data. For other accounts, as it is not clear which path an account will take to default, the Board assumes accounts will proceed to default via delinquency, as is most common, which also aligns with the Stress Testing Policy Statement principle of conservatism. This assumption also aligns with other assumptions in the model; for instance, the interest and fee reversal in the Bank Card Model similarly assumes that loans will proceed to default via delinquency. While the Board is finalizing this aspect of the Credit Card EAD Model as described in the 2025 Credit Risk Models Documentation, the Board may consider alternative approaches in the future through its regular process of model development and validation.

Considering the purposes of the Credit Card model, as well as the comments received and the Board's responses above, the Board considers the approach to the exclusion of rapid charge-offs of the Credit Card EAD Model to be appropriate for the supervisory stress test, and has adopted this aspect of the model as proposed.

4. Credit Card Revenue and Loss Sharing Agreements

As described in the 2025 Credit Risk Models Documentation, the Board proposed to adjust losses for credit card balances covered by revenue and loss sharing agreements ("RLSAs") if they met certain criteria.[120]

One commenter recommended that the Board make one of two alternative model changes to more fully recognize the countercyclical nature of RLSAs that are reported as part of PPNR. First, the commenter stated that the Board could adjust the PPNR Interest Income on Loans Model to account for RLSA's behavior during stress and provided a detailed equation (RLSA Payments = Max (RLSA Payments to Earnings % x FRB Modeled Earnings, Min. RLSA Payment).

Second, the commenter stated that, alternatively, the Board could make an adjustment to apply RLSA adjustments within the existing Credit Card Model's loan loss framework—even though RLSA payments are not explicitly reported there—with the overall effect on Net Income being consistent with adjustments made in the PPNR Model. The commenter presented data that their own RLSAs predominately share profits rather than revenues and losses separately, and expected these agreements to be reported accordingly in the FR Y-14M (Schedule D.3 Portfolio Level RLSA), which would require an adjustment to apply the effective profit-sharing rate instead of the effective loss sharing rate (among accounts subject to RLSAs) in the Board's proposal. The commenter recommended that the effective profit-sharing rate could be calculated as the profit share amount divided by profits subject to sharing, and that the percentage of balances subject to sharing, as noted in the Board's methodology, could remain the same as proposed. This commenter also recommended that the Board expand the collection and

[120] 2025 Credit Risk Models Documentation, 486.

reporting within the FR Y-14 templates to include RLSA details, specifically at the total portfolio level, on a quarterly or, where appropriate, annual, basis. The commenter stated that capturing key portfolio-level metrics—such as total balances subject to RLSAs, effective loss sharing rates, and associated revenues and losses—will enable more accurate and consistent adjustments of RLSA impacts in supervisory stress testing models.

The Board has considered the comments submitted and has determined to revise the model specifications described in the 2025 Credit Risk Models Documentation by making changes to the treatment of RLSAs. The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[121]

The Board made several changes to the treatment of RLSAs in the final model, compared to the adjustment described in the proposed model documentation. These changes align with alternatives to the treatment of RLSAs described in the 2025 Credit Risk Models documentation and the associated proposed FR Y-14M D.3 portfolio-level schedule proposal.[122] One of the commenters noted that RLSAs have countercyclical impacts, as payments to sharing partners tend to decline under periods of economic stress, partially offsetting reduced profits on credit cards under stress. To account for this, the commenter recommended that the Board consider two alternatives to better recognize the countercyclical effects of RLSAs. The Board determined to use an approach similar to the commenter's second proposed alternative, as described in detail below, to leverage the macroeconomic sensitivity inherent to the Credit Card Model while preserving a consistent and appropriate treatment across firms.

[121] 2026 Credit Risk Models Documentation, Section E.ii.F.

[122] 2025 Credit Risk Models Documentation, 492–95.; Enhanced Transparency and Public Accountability Final Rule, Section XII.

Under the commenter's first proposed alternative, the Board would adjust the PPNR Interest Income on Loans Model to separately account for RLSAs. Rather than assume that the ratio of RLSA payments to interest income remains constant during financial stress, as the Board's model implicitly does, the commenter's proposed approach would assume that RLSA payments are a constant percentage of earnings over the projection period, subject to a floor. However, this alternative would only be applicable to firms that report RLSA payments via interest income in regulatory filings; a separate adjustment would be required for other firms, such as firms that report RLSA payments via noninterest income. Furthermore, this approach would require significant assumptions to implement; for instance, the floor may vary substantially across firms and is a consequence of several contractual terms in the agreements, rather than an explicit term in the agreements, making it impracticable to ensure consistent reporting and modeling treatment across firms. For these reasons, the Board did not implement this alternative.

Under the second proposed alternative, the Board would leverage the Credit Card Model to calculate the projected losses on portfolios subject to RLSAs and use these projections to directly calculate projected loss sharing payments over the projection horizon. For agreements that share profits rather than revenues and losses separately, the Board would use the profit sharing rate in place of the loss sharing rate. This option would leverage the fact that increases to credit losses under stress are a key contributor to the countercyclicality of RLSAs.

The Board's finalized models incorporate several of these suggestions. In particular, the models included account for all loss sharing amounts using the Credit Card Model and Provisions Model, and applies the profit-sharing rate in place of the loss sharing rate for agreements that share profits instead of revenues and losses separately. The model assumes that

net revenues (aside from credit losses) remain constant on portfolios subject to RLSAs throughout the projection horizon, while losses will be projected based on the modeled output. These modelling choices are simple and consistent, in alignment with stress testing principles.[123]

The Board accounts for these additional losses consistent with each firm's own regulatory reporting. For instance, if a firm accounts for loss sharing payments via a reduction in provisions taken, the Board reduces the projected provisions taken based on the projected loss sharing payments. Alternatively, if a firm accounts for profit sharing payments via net interest income, the Board reduces the projected net interest income by the amount of the projected profit sharing payment, where the profit sharing payment is adjusted to account for changes in projected credit card losses over course of the projection horizon. This approach is intended to apply revenue and loss sharing amounts in the supervisory projections consistent with each firm's regulatory practice, in order to increase the clarity and transparency of the stress test results. Finally, to avoid double counting of RLSA impacts in PPNR, the Board additionally makes adjustments to the input data that feed into certain PPNR components. These adjustments are described in more detail in the 2027 Proposed PPNR Model.

Altogether, the Board's approach ensures that the economic treatment of RLSAs is consistent across all firms while the accounting treatment is consistent with each firm's regulatory reporting treatment.[124]

Considering the purposes of the Credit Card Model, as well as the comments received and the Board's responses above, the Board considers the model changes to more fully recognize

[123] 12 CFR 252, Appendix B, sections 1.3–1.4.

[124] 12 CFR 252, Appendix B, section 1.3.

the countercyclical nature of RLSAs to be appropriate for the supervisory stress test, and has updated the Credit Card Model accordingly.

a. RLSA Reporting instructions

(1) Granularity

One commenter stated that portfolio-level RLSA reporting would increase standardization across firms, as agreement-level reporting can introduce greater errors and discrepancies across firms. The commenter also stated that, although agreement-level reporting may theoretically increase precision, portfolio-level reporting would capture the aggregate economic impact and stress sensitivity of RLSAs on credit losses and revenues across firms. Additionally, the commenter asserted that portfolio-level reporting significantly reduces firms' operational and compliance burdens and simplifies reporting requirements without sacrificing supervisory insight. The commenter also stated that portfolio-level reporting would allow the Board to simplify its processes and apply consistent and transparent modeling methodologies across firms.

The Board has considered the comments submitted and has determined that portfolio-level, rather than agreement-level, reporting is appropriate for collecting information on RLSAs, as discussed in more detail in the response to comments in Section II.E.4.a(3) below. The revised model specifications are described in detail in the 2026 Credit Risk Models documentation.[125] The Board has determined to adopt revisions to the Board's instructions to the FR Y-14.[126]

The Board determined to finalize the FR Y-14 instructions pertaining to RLSAs requiring reporting at the portfolio-level, rather than the agreement-level. Two commenters supported this

[125] 2026 Credit Risk Models documentation, Section E.ii.f.

[126] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

portfolio-level approach. As described by commenters, although an agreement-level approach may be more precise, it would be substantially more burdensome for reporting and could lead to errors and discrepancies across firms, would be more complex for the Board in producing a treatment for RLSAs, and would have limited benefits for aggregate projections. Because of the considerations raised by these commenters, the final instructions require portfolio-level reporting.

(2) Materiality Threshold

One commenter stated that the Board should implement a materiality threshold for reporting the proposed FR Y-14M, Schedule D.3, which would collect data on credit card RLSAs. The commenter asserted that, for many firms, RLSAs as a proportion of their total credit card portfolio is immaterial so burden would be imposed on firms without a reporting benefit.

The Board has considered the comments submitted and has determined to adopt a materiality threshold to the final instructions for the new FR Y-14M, Schedule D.3.[127] The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.

The Board determined to add a materiality threshold because not accounting for the RLSAs of firms with balances subject to RLSAs below the threshold would have immaterial impacts on the stress test results. A materiality threshold would also help mitigate reporting burdens on firms with small but non-zero exposure to RLSAs. Additionally, if a firm believes that their agreements would impact results despite their balances being below the threshold, the firm will retain the ability to voluntarily submit the schedule. In particular, firms are required to

[127] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

report Schedule D.3 in the quarter after total balances covered by RLSAs are $5 billion or greater or exceed 5 percent of the firm's total domestic consumer bank card balances. This threshold allows the Board to balance capturing the impacts of RLSAs when they are material to firms, with reducing reporting burden on firms with small but non-zero balances subject to RLSAs.

(3) Identifying or Aggregating RLSAs

One commenter recommended that the Board clarify how to submit RLSA as a line item or how to aggregate RLSA data if that is preferred. If each partner's RLSA is to be submitted, the commenter stated that an item should be added to assign a partner RLSA ID. Alternatively, if RLSA data is to be submitted in aggregate, then the commenter stated that the Board should provide clear guidance on how to aggregate RLSAs.

The Board has considered the comments submitted and has determined that portfolio-level, rather than agreement-level, reporting is appropriate for collecting information on revenue and loss sharing agreements, as discussed in more detail in the response to comments above in Section II.E.4.a(1). The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[128] The Board has determined to adopt changes to the Board's instructions to the FR Y-14.[129]

The instructions as proposed would have delineated how reporting firms should aggregate agreements. For additional clarity, the Board has included the word "total" into the instructions for Schedule D.3. In general, the income sheet and balance sheet components collected in Schedule D.3 should be reported as the total amounts for all accounts under the agreements that are included in the reporting segment. However, reporters should refer to

[128] 2026 Credit Risk Models Documentation.

[129] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

specific instructions for each data item, which may contain additional requirements or exceptions to this general guidance. Institutions with questions about the reporting of certain line items should reach out to the data aggregator or via the FR Y-14 Q&A portal, as appropriate.

(4) Reporting Frequency

One commenter asserted that much of the information proposed to be collected on Schedule D.3 remains static throughout the year so monthly submissions would not provide meaningful information and that frequency of profit share calculations are generally not performed on a monthly basis. The commenter stated that an annual submission of Schedule D.3 as of the jump-off date of the stress test would provide the necessary data while saving firms from monthly reporting of largely static data. Another commenter, similarly concerned with the frequency of reporting of Schedule D.3, asserted that a quarterly submission would be appropriate.

The Board has considered the comments submitted and has determined to adopt a quarterly submission of FR Y-14M Schedule D.3 that would be sufficient to capture the information needed to produce the RLSA adjustment without unnecessarily burdensome reporting requirements.[130] The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[131]

Quarterly data provide sufficient frequency and monthly data would likely be subject to unnecessary volatility and complexity. At the same time, annual data would not be sufficiently frequent to track structural changes in a firm's portfolio (for instance, the loss or addition of a

[130] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

[131] 2026 Credit Risk Models Documentation, Section E.ii.f.

sharing partner) or detect data anomalies in advance of the stress test as-of date; hence, the Board determines that a quarterly data submission properly balances these considerations.

(5) Timing of Reporting

One commenter stated that since the proposed Schedule D.3 instructions include criteria for which RLSAs should be reported in each period, the instructions should be revised to allow firms time to include metrics for added RLSAs, to allow firms to reassess the reportable RLSAs each month, which could result in the addition or removal of RLSAs.

The Board has considered the comments submitted and has determined to adopt the final instructions related to the timing of RLSA reporting as proposed, with one revision; the final instructions require the reporting of all RLSAs, as opposed to the proposed 90 percent of receivables standard.[132] The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[133]

Information on material agreements is necessary to ensure that the adjustment is appropriately calibrated. To avoid burden associated with determining which agreements should be included in the reporting population, the Board removed the reference to covering 90 percent of receivables in the final instructions; instead, all agreements must be reported. To mitigate the burden associated with reporting this schedule, however, the final instructions require quarterly, rather than monthly reporting; additionally, the Board added a materiality threshold to this schedule to reduce burden on firms with immaterial RLSA balances.

One commenter stated that the timeline for implementing RLSA reporting will require sufficient time for system development, data sourcing, and procedural implementation and

[132] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

[133] 2026 Credit Risk Models Documentation, Section E.ii.f.

asserted that the Board should provide a 12-month period between when the instructions are finalized and when reporting requirements come into effect, regardless of whether the Board adopts a portfolio-level or agreement-level RLSA modeling approach.

The Board has considered the comments submitted and has determined to implement the RLSA revisions as of Q4 2027, in line with the commenter's recommendation and given the time necessary for firms to update reporting systems.[134]

(6) Consistency

One commenter stated that the Board should make RLSA reporting standards consistent across firms as firms currently reflect RLSAs in different ways within regulatory reports which the commenter asserted can create inconsistencies in stress test projections.

The Board has considered the comments submitted and has determined to continue to allow heterogenous reporting of RLSAs across institutions.[135] The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[136]

Accounting rules provide significant flexibility in the ways firms report the RLSAs. Requiring standardized reporting would either require firms to update internal accounting purely for the purposes of stress testing models, or for FR Y-14 reporting practices to differ from other reporting forms. Instead of requiring consistent reporting standards, the Board instead applies a consistent methodology to all agreements, regardless of where they are reported, and then applies the projected payments associated with RLSAs to the component of the balance sheet in which the firm reports the payments. This methodology balances the interests in treating RLSAs

[134] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

[135] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

[136] 2026 Credit Risk Models Documentation, Section E.ii.f.

consistently across firms and in reporting consistent with each firm's internal accounting practices.

(7) Reflecting Profit Sharing

One commenter recommended that an item be added to Schedule D.3 for profit sharing agreements to capture the FR Y-9C item in which the partner's share of profit sharing is reflected. The commenter stated that an additional item would streamline reporting but should not be required monthly, as the FR Y-9C is reported quarterly.

The Board has considered the comments submitted and has determined to adopt revisions to the Schedule D.3 instructions to no longer require reporting the FR Y-9C line items associated with RLSA payments.[137] The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[138]

As the Board made changes to the PPNR models such that they now source input data from FR Y-14Q Schedule G (PPNR) rather than from the FR Y-9C, the Board determined to update the new FR Y-14M Schedule D.3 instructions to no longer require reporting the FR Y-9C line items associated with RLSA payments, as in the proposed instructions and in the commenter's suggestion. Instead, the Board updated the FR Y-14Q Schedule G instructions to add three new fields to collect RLSA payment amounts that are reported in interest income, noninterest income, and noninterest expense, respectively. The final instructions reduce reporting burden, as the same information can be reported on Schedule G using three fields rather than the higher number of fields that would be required if it were reported on Schedule D.3. Additionally, the Board uses this information regarding RLSA payments reported in PPNR

[137] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

[138] 2026 Credit Risk Models Documentation, Section E.ii.f. *See also* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

to ensure that pre-provision net revenue projections do not include double-counted RLSA payments. Given that Schedule G is used for modeling pre-provision net revenue, the Board determined that Schedule G is the appropriate location to report information on RLSA payments included in pre-provision net revenue, to streamline the reporting and modeling processes. Corresponding RLSA fields are also being added to the FR Y-14A Schedule A.7 (PPNR) to maintain consistency between the FR Y-14A and FR Y-14Q.

(8) Charge-off Definition

One commenter asserted that the proposed instructions to include gross charge-offs in Schedule D.3, which include principals and interest and fee charge-offs, did not align with accounting principles for principal charge-off vs. interest and fee charge-offs. The commenter stated that principal charge-offs are classified as "losses subject to sharing" and the associated "loss share amount," but interest and fee charge-offs are "contra-revenue subject to sharing" and the associated "revenue share amount." Additionally, the commenter stated that the proposed instructions did not specify whether reported recoveries should be gross recoveries, consistent with gross charge-offs, or principal recoveries. The commenter asserted that similar issues raised with gross charge-offs would occur if the instructions were to specify that reported recoveries should be gross recoveries.

The Board has considered the comments submitted and has determined to adopt revisions to the instructions for the FR Y-14M, Schedule D.3 to clarify explicitly that gross charge-offs and recoveries should be reported consistent with firm FR Y-9C reporting practices.[139] This change reduces reporting burden and ensures that values reported on this schedule are consistent with other regulatory reports.

[139] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.F.

F. Auto Model

The domestic auto loan loss model ("Auto Model") is used to project loan losses and provisions on domestic consumer loans held for investment at amortized cost that are extended for the purpose of purchasing new and used automobiles and light motor vehicles, as defined by the FR Y-9C, as described in the 2025 Credit Risk Models Documentation.[140] The Auto Model's calculations are included in the "other consumer" category of projected aggregate loan losses that contribute to the calculation of pre-tax net income.[141] The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. Probability of Default Model

a. Including loan terms (loan structure variables) in the Auto PD Model

The Board proposed to use an Auto PD Model that would include loan, borrower, and macroeconomic characteristics that account for the risk factors deemed by the Board to be the most important predictors of default risk in the portfolio, subject to data availability constraints.[142]

Two commenters recommended that the Auto PD Model incorporate loan terms, such as loan-to-value, monthly payment amount, and payment-to-income ratio, as the models primarily focus on consumer risk rather than structural elements of the exposures.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

[140] 2025 Credit Risk Models Documentation, 502.

[141] *Id*.

[142] 2025 Credit Risk Models Documentation, 512.

The Board determined to adopt the Auto PD Model specifications as proposed, even though including loan factors could potentially improve the accuracy of auto default projections. The Board uses back-testing analysis to assess model performance when applied to historical Credit Bureau Data; this analysis shows that the model as specified in the proposal produces projected default rates that align closely with actual default rates in stress periods as well as benign periods, diverging only during the COVID period, when default rates stayed low despite the sharp increase in unemployment rate. The Board has assessed that the divergence reflected in this data during COVID is associated with the unique environment of that period, including government support programs, rather than an indication of weakness in the model. Furthermore, while in some benign periods, loss rates projected by the model tend to be higher than the loss rates reported in the FR Y-14Q historical data, in other periods the difference between model projections and actual loss rates are minimal, or the projected loss rates are slightly lower than the actual loss rates. Altogether, given the findings of this analysis, the Board has assessed that the risk of model projections being inaccurate due to missing variables is low.

Additionally, the current variable selection is limited by data availability constraints and adding loan structure variables, as suggested by the commenters, would be challenging and may not improve model performance. While certain deal structure variables are available in the Credit Bureau Data, other data such as loan-to-value ratio and whether a car is new or used are entirely unavailable, and could not be included when estimating the model coefficients using the current data sources. Similarly, using deal structure variables would require additions to FR Y-14Q reporting, either by adding new variables, shifting variables that are reported as summary variables to segment variables, or expanding segmentation. Additional reporting obligations would increase the reporting burden of firms, which is not justified given the analysis described

in the previous paragraph. As a result, the model specification better aligns with the principle of simplicity from the Policy Statement.[143]

Considering the purposes of the Auto Model, as well as the comments received and the Board's responses above, the Board considers the specification of the Auto PD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

b. Considering payoffs in the Auto PD Model

The Board proposed to use an Auto PD Model that does not model early payoffs, given that early payoffs would not be dropped from the estimation sample following the payoff date of the loan.[144]

Two commenters recommended that the Auto PD Model account for early payoffs as a termination event, as otherwise the model would result in higher charge-off risk in later forecast horizons, because it would overestimate the populations of accounts "surviving" to default in future quarters.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

The Board determined modeling early payoffs is not necessary given that loans that payoff during the projection window are not dropped from the estimation sample in periods following the payoff date. Because these payoffs are not dropped from the estimation sample, there is consistency between the approach used in estimation (keeping the paid-off loans) and projection (making no adjustment in the survival probability calculation for payoffs), and there is

[143] 12 CFR 252, Appendix B, section 1.4.

[144] 2025 Credit Risk Models Documentation, 521, 529.

no bias introduced into the unconditional probability of default projection. One commenter made several suggestions, one of which was to re-estimate the Auto PD Model directly on an unconditional basis where non-default payoffs are not removed from the risk set. The Board has updated the documentation to clarify that this does reflect the methodology of the model described in the proposal.[145] While the Board is finalizing this aspect of the Auto PD Model as described in the 2025 Credit Risk Models Documentation given that the methodology is reasonable and internally consistent, the Board may consider alternative approaches in the future through its regular process of model development and validation.

Considering the purposes of the Auto Model, as well as the comments received and the Board's responses above, the Board considers the specification of the Auto PD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

2. Loss Given Default Model

a. Accounting for repossession in the Auto LGD Model

The Board proposed to use an Auto LGD Model that includes loan, borrower, and macroeconomic characteristics that account for the risk factors deemed by the Board to be the most important predictors of loss given default in the portfolio, subject to data availability constraints.[146]

Two commenters recommended that the Auto LGD Model account for repossession status of the collateral, arguing that, as the proposed model would not account for repossession of collateral, it risks overestimating total losses. These commenters stated that the status of collateral after repossession affects the realized recovery and recovery timing.

[145] 2026 Credit Risk Models Documentation, Section F.ii.a(3).

[146] 2025 Credit Risk Models Documentation, 537.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

The Auto LGD Model is estimated using historical FR Y-14Q Auto data, which is reported at the segment level. The individual segments comingle loans with and without repossession. Therefore, the data in current reporting are not available to directly include in the model whether a loan had repossession. While there may be potential methods to use the available data to incorporate information regarding repossession status; for instance, by including whether a segment had any instances of repossession, or the share of repossession balance in a given segment, these methods are challenging implement in practice, as most segments include at least some repossession activity. The Board tested including repossession information in the Auto LGD equation in different forms (such as whether a segment had any instances of repossession, or the share of repossession balance in a given segment), but the analysis showed that empirically, specifications accounting for repossession would produce minimal differences in projections compared to the proposed specification.

Furthermore, repossession activity can vary over time, across firms, as well as across segment and loan characteristics. Hence, even to the extent that including repossession would impact model projections, despite the findings in the previous paragraph, capturing this variation across these three dimensions (time, segment, and loan characteristics) in the projection horizon would require a set of complex assumptions reflecting the persistence of a segment's repossession behavior over time, or an additional model component to determine which accounts would be repossessed versus charged-off without repossession. This would be challenging to

implement and conflict with the modeling principle of simplicity.[147] The Board determined to avoid introducing this additional complexity, as, in addition to the reasons described previously, it would be expected to have minimal impacts on overall losses.

Considering the purposes of the Auto Model, as well as the comments received and the Board's responses above, the Board considers the specification of the Auto LGD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

b. Remove seasonality term in Auto LGD Model

The Board proposed to use an Auto LGD Model that accounts for seasonality of auto loss given default, as used vehicle values tend to be highest in the spring.[148]

One commenter recommended that the Board either provide further evidence to support the inclusion of seasonality in used vehicle prices in the Auto LGD Model or remove it.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

As described in the 2025 Credit Risk Models Documentation, the Consumer Price Index for used cars and trucks generally has higher values in the first half of the year compared to the second half of the year.[149] Therefore, the inclusion of seasonality in the Auto LGD Model is reasonable and appropriate. While the commenter asserts that the seasonality term may overshadow the seasonality in the scenario, the macroeconomic variables are seasonally adjusted and enter the Auto LGD Model as year-over-year changes, mitigating the impact of seasonality

[147] 12 CFR 252, Appendix B, section 1.4.

[148] 2025 Credit Risk Models Documentation, 540.

[149] *Id*. at note 554. ("While this relationship was not observed in 2020 and 2021, this is likely due to the distortions in the used car market as a result of economic effects related to the COVID-19 pandemic.")

from these variables. The seasonality variables are therefore appropriate to capture seasonality that is present in actual historical LGD data. The large coefficients on these terms indicate that seasonality is, in fact, meaningful, independent of the other variables included in the model.[150]

Considering the purposes of the Auto Model, as well as the comments received and the Board's responses above, the Board considers the specification of the Auto LGD Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

G. Other Retail Models

The Other Retail portfolios cover a broad range of lending that is not accounted for by other supervisory stress test models. While the balances of the individual portfolios are small as a share of the total balance of loans modeled in the stress test, together they can meaningfully impact the capital position of firms engaged in these forms of lending.[151] The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. Additional segmentation/risk capture in the regression models.

Two commenters suggested making changes to the Domestic Other Consumer Model to incorporate additional granularity, while one of these commenters recommended similar changes to the Domestic Small Business Model. In particular, these two commenters recommended incorporating credit scores into additional Other Retail Models to reflect differences in risk levels across prime and subprime borrowers. Additionally, one commenter recommended modeling Secured and Unsecured Other Consumer and Small Business loans separately. Finally,

[150] 2025 Credit Risk Models Documentation, 536.

[151] 2025 Credit Risk Models Documentation, 568.

one commenter suggested adding loan-to-value into the Other Consumer and U.S. Small Business Models when applied to secured loans.

The Board has considered the comments submitted and has determined to revise certain specifications of the Other Consumer Model to add an interaction term to account for the historical difference in macro-sensitivity between secured and unsecured loans. The revised model specifications are described in detail in the 2026 Credit Risk Models Documentation.[152] Other than these revisions, the Board has determined to finalize the model specifications for the Other Retail Models as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

These commenters' recommendation that the Board incorporate credit scores into additional Other Retail Models is challenging due to the limited segmentation available on the reporting forms. In particular, FR Y-14Q Schedules A.7 (U.S. Other Consumer) and A.9 (U.S. Small Business) only segment loans based on whether the associated credit score is above 620, below 620, or missing; U.S. Small Business and Corporate Credit Cards reported during the 2007-2009 financial crisis have similar segmentation.[153] Since the vast majority of loan balances fall into the "above 620" category, there is insufficient differentiation to use this variable in the model; segmenting by credit score would not meaningfully improve the accuracy of projections, but would create narrow, volatile segments that produce unpredictable behavior. While the Board could amend FR Y-14Q reporting instructions to add additional granularity to this and other segmentation variables, without historical data on these additional segments, the Board would not be able to easily incorporate the additional segments into the model. Meanwhile,

[152] 2026 Credit Risk Models Documentation, at Section G.iii.c.

[153] Since 2012, this portfolio has been reported at the account level on FR Y-14M, Schedule D.

changing the reporting instructions and in particular adding additional segmentation, or converting to a loan-level schedule format, would introduce additional reporting burden for firms, even though the benefit would be uncertain given the limited industrywide materiality of the portfolios covered by these schedules.

Regarding recommendations to model Secured and Unsecured Other Consumer and Small Business loans separately, these models already account for the effect of collateral to some extent both explicitly and implicitly; explicitly, in that the models account for whether or not a loan is secured and apply separate coefficients based on secured status; and implicitly, in that the models use the prior quarter's net charge-off rate to predict the current quarter's net charge-off rate (in other words, these models are autoregressive). To the extent that collateral and collateral quality are associated with lower net charge-offs in the jump-off quarter, this will lead to lower net charge-off projections during the scenario. However, the Board determined that with respect to the U.S. Other Consumer Model, the differentiation between projections for secured and unsecured loans was insufficient as proposed, and that it was appropriate to add an interaction term to the model specification to account for the historical difference in macro-sensitivity between secured and unsecured loans. On the other hand, the Board determined that the U.S. Small Business Model would remain consistent with the specification outlined in the proposed model documentation. While the differences in macro-sensitivity are observed in both portfolios, the collateral status variable in the small business portfolio has several limitations for adding interaction terms. First, as noted in the 2025 Credit Risk Models Documentation,[154] there is limited data on collateral status prior to 2012. Given the importance of this variable, the Board uses it in the model despite this data limitation; however, further relying on this variable could

[154] 2025 Credit Risk Models Documentation, 622.

lead to volatility and inaccuracy. Second, in recent periods, the vast majority of balances reported in this portfolio have been secured, increasing the risk of data sparseness as more terms are added to the model. Unlike the small business portfolio, the other consumer portfolio is larger, has more reporters, has a more even distribution across collateral status, and has no historical data limitation.

Similarly, while the commenter recommended this approach for the Other Consumer and Small Business loans, the Board analyzed the impact of applying a similar model structure to the remaining domestic models and determined that the smaller segments would produce unreliable estimates. Given these challenges and the reasonable model fit, the Board determined that the benefits of further differentiating the treatment of loans across collateral status does not outweigh the costs for the remaining domestic portfolios.

Finally, one commenter suggested adding loan-to-value into the Other Consumer and U.S. Small Business models when applied to secured loans. However, further segmenting the model would increase the model complexity while insufficiently improving projection accuracy to justify the additional complexity. As previously noted, the autoregressive design of the model implicitly accounts for differences in risk across different firms and over time, even if some features are not explicitly included in the model.

For all these reasons, the Board determined to change the Other Consumer Model while maintaining all other portfolio specifications as proposed in the final models.

Considering the purposes of the Other Retail Models, as well as the comments received and the Board's responses above, the Board updated the Other Consumer model to capture additional variation between secured and unsecured loans. The Board considers the specification

of the remaining Other Retail Models to be appropriate for the supervisory stress test, and has adopted those models as proposed.

2. Smoothing net charge off rate

The Board proposed to use the Other Retail Model, which would be used to project loan losses and provisions on loans, as measured at amortized cost, for a range of loan categories. For those portfolios that are sufficiently large—and for which there is sufficient historical loss data—to project net charge-off rates based on reported data and projected macroeconomic characteristics with sufficient prevision, the Board proposed to use regression models.[155] These regression models rely on the previous quarter's value of net charge-off rate (and for the International Model, the delinquency rate) to project future net charge-off rates. This structure of relying on previous values is referred to as an "autoregressive structure."[156]

One commenter asserted that Other Retail Models with an autoregressive structure should be calibrated using four-quarter averages for net charge off rates. The commenter stated that the proposed approach would build undue persistence into projections, and the use of quarterly values in estimation could introduce noise, negatively affecting accuracy of the projections.

The Board has considered the comments submitted and has determined to retain the net charge-off rates calculated off of one-quarter averages described in the 2025 Credit Risk Models Documentation for both the Domestic Models and International Models within the Other Retail Models.

The finalized models adopt an approach based on quarterly, rather than four-quarter average, net charge-off rates, as proposed. This approach maximizes the available data for

[155] *See* 2025 Credit Risk Models Documentation, 610.

[156] 2025 Credit Risk Models Documentation, 611.

fitting the model, especially during the 2007-2009 financial crisis. Since relevant FR Y-14Q data only begins in 2007, a four-quarter average would significantly reduce coverage of the recession period, limiting the model's ability to assess performance under economic stress, which would be less-aligned with the Stress Testing Policy Statement.[157] Furthermore, using the four-quarter average would increase the sensitivity of the model to the autoregressive term, to the point that the autoregressive term would crowd out other variables and therefore would substantially reduce the sensitivity of the model to the risk segments. This approach would limit the value of this structural feature in the model and overly calibrate the model to recent performance of the portfolio at a given institution, which would conflict with the stress testing principle of robustness and stability.[158] Finally, the Board considered the comment that quarterly values could contain noise, but also considered that the quarterly net charge-off rate already relies on net charge-offs across three separate months, building some smoothing into the model. In considering these factors, the final model appropriately balances the timeliness of the data and the calibration of the risk segment terms with the limiting of noise associated with the projections.

Considering the purposes of the Other Retail Models, as well as the comments received and the Board's responses above, the Board considers the autoregressive model specifications of the Other Retail Models to be appropriate for the supervisory stress test, and has adopted the model as proposed.

3. Delinquency definition in International Cards Model

[157] 12 CFR 252, Appendix B, section 1.1(c).

[158] 12 CFR 252, App'x B, section 1.5.

The Board proposed to define the delinquency rate for the International Cards Model as the share of balance that is 60 or more days past due, to consider an expansive range of delinquency without incorporating additional noise that may be reflective of factors other than sustained payment difficulties.[159]

One commenter recommended that the Board define delinquency for the International Cards Model based on a threshold of 90 or more days past due, arguing that the proposed 60-day threshold is inconsistent with the approach of, and justifications provided in, the domestic Credit Card Model with respect to charge cards, which have a 90-day threshold for default.

The Board has considered the comments submitted and has determined to finalize the definition of delinquency in the International Cards Model as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

The final International Cards Model defines delinquency based on a threshold of 60 or more days past due. The Board considered a comment recommending a definition based on 90 or more days past due, which would improve alignment with certain methodology decisions in the Charge Card PD Model within the Credit Cards Model. However, the Charge Card PD Model is a loan-level model that is substantially more complex than the International Cards Model, and captures the risk associated with each month of delinquency prior to default (which is defined based on a loan being 90 or more days past due). For instance, in the Charge Card PD Model, the PD projected for an account that is 30 days past due is higher than that of an account that is current, and the PD projected for an account that is 60 days past due is higher than that of an account that is 30 days past due. The International Cards Model is a much simpler, segment-level model, and the 60-day delinquency threshold is the only aspect of the model that considers

[159] 2025 Credit Risk Models Documentation, 614.

delinquency; given this, the 60-day threshold better accomplishes the broader goal of capturing the increased risk of portfolio losses in portfolios with a large share of delinquent balances, as it better ensures that the models are informed by sufficiently broad information on the loan performance in the portfolio. For instance, if a firm reported a low 90-day delinquency rate but a large share of loans that were between 60 and 90 days past due in the international cards portfolio, that could still signal an elevated risk of a large net charge-off rate in the next period. Therefore, a 60-day threshold more appropriately captures segments with potential heightened riskiness in the portfolio, and so the Board has adopted this aspect of the model as proposed.

Comments regarding the smoothing of net charge off rate in the International Cards Model are addressed in Section II.G.2.

Considering the purposes of the Other Retail Models, as well as the comments received and the Board's responses above, the Board considers the specification of the International Cards Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

4. Tie macroeconomic variables to region of exposure

The Board proposed to use the quarterly change in the U.S. unemployment rate in addition to region-specific macroeconomic variables to account for global economic conditions in the delinquency rate equation for the International Cards Model.[160]

One commenter recommended that International Models' macroeconomic variables should be tied to the corresponding region of exposure, in order to ensure conceptual soundness. The commenter stated that the use of U.S. unemployment rate in international regression models is conceptually unsound and recommended that macroeconomic factors be tied to the region of exposure or the most economically important areas within those regions.

[160] 2025 Credit Risk Models Documentation, 617–19.

The Board has considered the comments submitted and has determined to finalize the International Cards Model specification that uses the U.S. unemployment rate as a global risk driver as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

While the commenter recommended tying the macroeconomic variables to the region of exposure, the model as proposed does incorporate region-specific variables for each geographic segment used in the model.[161] The additional use of the U.S. unemployment rate incorporates a metric of global economic conditions, reflecting that the global economy in addition to the local economy is associated with credit risk. Several academic papers, including Rey (2018), Xia and Zhou (2023), and Xia, Tian, and Zhou (2023) similarly use variables that measure region-specific information to reflect global economic conditions. The proposed Credit Risk Models Documentation described evidence that the U.S. unemployment rate is correlated with region-specific macroeconomic variables, and that given the interconnectedness of the global economy, this correlation is expected to remain strong in the future.[162] Based on these factors, and the global nature of the severely adverse scenario to which the models are applied, the Board's proposed treatment remains appropriate.

Considering the purposes of the Other Retail Models, as well as the comments received and the Board's responses above, the Board considers the specification of the Other Retail Models to be appropriate for the supervisory stress test, and has adopted the model as proposed.

5. Incorporation of regional variation in risk

[161] 2025 Credit Risk Models Documentation, 618–19.

[162] 2025 Credit Risk Models Documentation, 617–621.

The Board proposed to use an International Cards Model that segments loans by region using the regions that are defined in the FR Y-14Q instructions.[163] Additionally, the Board proposed to use international scalars that do not vary based on loan characteristics, including region.[164]

One commenter asserted that geographic variation should be better accounted for in the International Retail Models. The commenter asserted that the proposed International Cards Model delineates differences in geographies only through coarse fixed effects by region (e.g., Canada, EMEA, LATAM, APAC) to measure regional economic conditions, and acknowledges that this is a limitation of reporting available in the FR Y-14Q. The commenter further noted that the International Scalar Models would not account for any geographic variation, despite the well understood variation in loss rates across countries, which the commenter believes would lead to inaccurate projections. The commenter recommended that, for greater accuracy, the Board should (i) recompute the international scalar models by region; and (ii) consider amending the FR Y-14Q to capture conditions in countries associated with each exposure.

The Board has considered the comments submitted and has determined to finalize the model specification of geographic variation as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

With respect to the international scalar models, the regional differences in historical performance observed in the FR Y-14Q reflect two different effects: first, the difference in underlying riskiness among the different regions; and second, the differences in severity of the

[163] 2025 Credit Risk Models Documentation, 618–619.

[164] 2025 Credit Risk Models Documentation, 579–581.

2007-2009 financial crisis across the different regions, which is the most severe macroeconomic downturn in the sample period across all regions. Therefore, separating the scalars by region would effectively assume that the geographic variation in risk would be consistent over time, which would be inconsistent with the Stress Testing Policy Statement principle of robustness and stability. Furthermore, in some portfolios, data in certain regions is very sparse, potentially introducing instability into estimates of a region-specific scalar, counter to the principle of robustness and stability in the Stress Testing Policy Statement.[165]

Unlike the scalar models, the International Cards Model does use regional variation, which reflects differences in the data and model structure. In particular, the International Cards Model uses region-specific macroeconomic variables to separate the structural differences across regions from the macroeconomic environment observed in the available historical data, and does not simply assume that the historical differences in loss rates will persist indefinitely. The historical data in this portfolio is also more complete, as more firms report this portfolio compared to the other international portfolios, limiting the potential risks associated with data sparseness. For these reasons, it is appropriate to use a single scalar for the Scalar Models, despite accounting for regional variation in the International Cards Model. Finally, the use of a single scalar, rather than region-specific scalars, is consistent with the treatment of international loans in other stress test models when not directly tied to the scenario variables themselves. For instance, the Corporate and Commercial Real Estate LGD Model projections do not vary for international exposures based on country, to avoid differential

[165] 12 CFR 252, Appendix B, section 1.5.

treatment.[166] For these reasons, the Board did not implement region-specific scalars in the final model.

Regarding the recommendation to amend the FR Y-14Q reports to capture additional variation, the Board determined that the additional information that would be captured would not justify the substantial reporting burden increase associated with such a change. Including the country of exposure would require increasing the number of geography-based segments in each schedule from its current level of 4 to approximately 200. This would be a significant increase in the number of rows to be reported. While the burden increase would be substantial, the modeling benefit is expected to be limited, as the balances in the affected portfolios are already small and would be made even smaller if broken down into finer regions. In particular, the Board's stress test models would need to separately project the macroeconomic path for each country to incorporate this additional information, substantially increasing the complexity of the models and scenarios, and requiring the Board to make additional determinations about the geographies that will be most shocked by the hypothetical recession. The four regions captured by the current report allow the Board to capture geographic variation broadly without increasing reporting burden or unnecessarily increasing modeling complexity.

Considering the purposes of the Other Retail Models, as well as the comments received and the Board's responses above, the Board considers the specification of geographic variation in the International Retail Models to be appropriate for the supervisory stress test, and has adopted the model as proposed.

6. Additional scalars for international scalar models

[166] *See* 2025 Credit Risk Models Documentation, 28–29, 73–81.

One commenter suggested that, for international portfolios with sufficient data to support further segmentation, three scalars should be used to model losses more accurately, noting that for international scalar models, using a single scalar would not allow for any risk differentiation in loss estimates. One commenter recommended that, for certain Other Retail products (such as International First Mortgage and International Other Consumer Loan), the Board consider leveraging segmentations already available in the FR Y14Q data to introduce more risk-sensitive static scalars, for example, by applying lower-risk scalars to international mortgage exposures with characteristics such as higher credit scores and lower loan-to-value ratios, while consolidating all remaining exposures under a higher-risk scalar. This commenter stated that revising the approach to incorporate FR Y-14Q data would better align to other modeling approaches that reflect portfolio risk as of the jump-off date.

The Board has considered the comments submitted and has determined to finalize the model specifications of the international scalar portfolios as described in the 2025 Credit Risk Models Documentation.

The Board considered using multiple scalars to allow for additional risk differentiation. However, the data collected on the FR Y-14Q for these portfolios is sparse (in terms of the number of available observations in the historical data, the number of fields reported, and the number of categories within each field), likely due to their limited materiality for most firms. This sparseness limits the additional value that can be derived from including additional segmentation on the segment categories for credit score and LTV ratio. Furthermore, portfolio balances are generally small, and concentrated in a limited number of firms, limiting the materiality of the methodology chosen for these portfolios. While the Board is adopting a single scalar for the international scalar models in the Other Retail Models in alignment with the

modeling principle of simplicity,[167] the Board may consider alternative approaches in the future through its regular process of model development and validation.

Considering the purposes of the Other Retail Models, as well as the comments received and the Board's responses above, the Board considers the specification of the international portfolios to be appropriate for the supervisory stress test, and has adopted the model as proposed.

H. General

1. Treatment of geographic variation

The Board proposed to apply a common national path to all macroeconomic variables that enter models at the state or county-level, such as house prices and unemployment rate, based on the change from the local starting point, for all models that use sub-national macroeconomic data. This approach would be a change from the approach used in previous exercises.[168]

One commenter stated that the Board's proposed changes to the projection of regional paths for macroeconomic variables should be reconsidered and that the Board should retain its current approach to geographic differentiation. This commenter argued that the risk of a house prices crash is a function of recent price increases and that the Board should not make a change that would ignore this relationship. The commenter referenced academic work demonstrating that areas with housing booms in the 2000s experienced larger busts in 2008 financial crisis, and that those areas have since experienced larger rises.

[167] 12 CFR 252, Appendix B, section 1.4.

[168] Board, Proposed Model Changes for 2026 Stress Test (Oct. 2025), *https://www.federalreserve.gov/supervisionreg/files/proposed-model-changes-2025-to-2026.pdf* ("2025 Proposed Model Changes Documentation"), 4–6.

The Board has considered the comments submitted and has determined to finalize the approach to geographic differentiation as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

While it is plausible that certain geographies may experience more volatility than others in terms of the macroeconomic environment, the Board does not estimate such volatility to differentiate scenarios across geography to avoid making assumptions about the severity of a hypothetical recession across different regions. While the commenter asserts that housing price declines will be larger in areas with recent booms, it can be challenging to disentangle these effects from broader differences in volatility across geographies, and this volatility can vary over time. The Board determined to avoid making such assumptions about the persistence of this volatility to avoid punitive treatment in certain geographies. The treatment of the geographic dispersion of house prices in the final rule also aligns with the treatment of other scenario variables, such as the unemployment rate, and so better adheres to the Board's modeling principle of consistency and comparability. Assuming consistent macroeconomic conditions across geographies is consistent with other models used in the supervisory stress test and also ensures that loans are not unduly penalized due to the geography in which they are located.[169] However, the Board will continue to assess whether it can properly account for the relationship between booms and busts in housing markets without making assumptions that suggest certain geographies are persistently prone to larger house price declines.

[169] *See, e.g.*, 2025 Credit Risk Models Documentation, 344 (citing Section III.B of the Enhanced Transparency and Public Accountability Proposal).

Considering the purposes of the Stress Test models, as well as the comments received and the Board's responses above, the specification of geographic differentiation is appropriate for the supervisory stress test, and has adopted this aspect of the models as proposed.

2. FR Y-14Q/M/A Reporting Forms

The Capital Assessments and Stress Testing information collection (FR Y-14) consists of the FR Y-14A, Q, and M reports, and collects detailed data on bank holding companies', intermediate holding companies', and covered savings and loan holding companies' various asset classes, capital components, and categories of pre-provision net revenue on a monthly or quarterly basis.[170] This data is used to support supervisory stress testing models and for continuous monitoring efforts.[171]

a. FR Y-14Q

One commenter stated that the Board should revise the delinquency status fields in the FR Y-14Q, Schedule A to streamline reporting burden and improve data quality. The commenter noted that the number of delinquency status fields, and the number of days past due for the status fields, vary across the retail schedules. The commenter recommended that these fields be revised to be consistent and that the Board consider reducing the granularity of the Schedule A delinquency status fields such that they are aggregated to be more aligned with the FR Y-9C, Schedule HC-N. Additionally, the commenter asserted that these delinquency status fields should be reduced and revised to "01 - Current and 1-29 DPD," "02 – 30-89 DPD," and "03 – 90 and more DPD," which the commenter asserted would reduce burden on firms for maintaining different delinquency status fields for different regulatory reporting purposes.

[170] Reporting Form FR Y-14Q Instructions.

[171] *Id.*

The Board has considered the comments submitted and has determined to retain the delinquency status fields within the FR Y-14Q, Schedule A.

Currently, of the Schedule A portfolios, only the schedules covering loans secured by real estate (Schedules A.4 and A.5) use a different delinquency definition. This difference is because delinquency can last longer for real estate products than other exposures. Additionally, understanding the progression of delinquency, with the granularity of the current Schedule A, is critical for monitoring these portfolios. Also, the Auto Model directly uses detailed, granular data from these fields as inputs.

b. Y-14M Reporting Cadence

One commenter stated that the FR Y-14M should be reported on a quarterly basis, rather than monthly, to reduce burden.

The Board has considered the comments submitted and has determined to retain the FR Y-14M's current reporting cadence.

The FR Y-14M collects data on firms' first lien, home equity, and credit card portfolios on a monthly cadence. Data on firms' large retail portfolios are critical for monitoring purposes, especially during any period of economic stress, and, in addition to its use supporting the supervisory stress testing models, is used for continuous monitoring purposes. To ensure that the Board continues to receive this data in a timely fashion, the Enhanced Transparency and Public Accountability final rule does not adjust the cadence of FR Y-14M reporting.

c. Y-14M Reporting Following Loan Termination

One commenter stated that, in the case of involuntary terminations, residential mortgage loans and home equity loans and lines of credit are reported for up to 24 months following termination, until certain line items are available to report elsewhere on the FR Y-14M (Schedule A and Schedule B, respectively). To reduce the burden of maintaining non-active records in

submissions, the commenter recommended that, to reduce the burden of maintaining non-active records in firms' FR Y-14M submissions, the Board reduce the reporting period for these involuntary terminations to a period of 6 months on both Schedule A and Schedule B. This commenter also recommended that the Board shorten the reporting period from 24 months to 12 months for closed or charged-off credit card accounts reported on FR Y-14M, Schedule D, as they assert that firms typically do not expect to obtain significant recoveries from these accounts beyond 12 months following closure or charge-off.

The Board has considered the comments submitted and has determined to retain the reporting periods for the items identified in Schedules A and B of the FR Y-14M.

As the existing instructions state, firms may stop reporting an involuntarily terminated loan once they fill in the fields needed to assess the gross loss and the recovery for which a 6-month window would not be sufficient. Additionally, this information is necessary for the Board to ensure that retail loss given default models are appropriately calibrated. Therefore, the Board continues to believe the current reporting practice is appropriate.

d. FR Y-14M Eliminations

One commenter recommended that the Board should consider eliminating FR Y-14M, Schedule C, asserting that it only includes one unique field because, they argue, all other data is included in Schedules A.1 and B.1.

The Board has considered the comments submitted and has determined to retain Schedule C of the FR Y-14M.

Schedule C provides important information, such as property street address and property city, which are not available on other schedules. This information is used to match senior and junior lien residential mortgages on the same collateral. By matching senior and junior lien loans, the Board gains valuable insights into the level of risk of both credits; in the supervisory

stress test, this information is used to calibrate the non-delinquent non-accrual ("NDNA") adjustment applied in the Home Equity Model.[172]

One commenter noted that the Board proposed to remove item 51 (Pre-Payment Penalty Term) from FR Y-14M, Schedule B.1, which the commenter asserted would mean that item 50 (Pre-Payment Penalty Flag) should also be retired. The commenter asserted that equivalent fields could also be removed from FR Y-14M, Schedule A.1. Similarly, the commenter noted that, in 2024, the Board proposed to retire FR Y-14M, Schedule A.1, item 96 (Troubled Debt Restructure Flag) and FR Y-14M, Schedule B.1, items 55 (Troubled Debt Restructure Date) and 90 (Other Modification Action Type)[173] and asserted that these items should be removed if they are not used for stress test modeling.

The Board has considered the comments submitted and has determined to adopt revisions that retire item 50 from FR Y-14M, Schedule B.1, retain the pre-payment penalty fields in Schedule A.1 identified by the commenter, and has previously retired items 55 and 90 from Schedule B.1, and item 96 from Schedule A.1.[174]

As Schedule B.1, item 51 (Pre-Payment Penalty Term) was proposed to be retired in the initial notice and it is connected to item 50 (Pre-Payment Penalty Term), it is appropriate to also retire item 50. However, the equivalent fields are necessary on Schedule A.1 given the materiality of the first lien portfolio and that prepayment penalties have historically been more relevant in that portfolio, so the final notice will not retire these fields. Items 55 (Troubled Debt Restructure Date) and 90 (Other Modification Action Type) from FR Y-14M Schedule B.1, and

[172] *See* 2025 Credit Risk Models Documentation, 363.

[173] 89 FR 52042, 52048 (June 21, 2024).

[174] *See* Enhanced Transparency and Public Accountability Final Rule, Section VII.A.

item 96 (Troubled Debt Restructuring Flag) from Schedule A.1 have been separately retired as of the September 30, 2026 reporting date.[175]

e. FR Y-14M Simplification

One commenter recommended that the Board introduce a simplified mechanism for reporting data on FR Y-14M, Schedule D.2. The commenter stated that items 17 (Managed Recoveries), 18 (Booked Recoveries), 19 (Managed Principal Recovery Amount), 20 (Managed Interest and Fees Recovery Amount), 21 (Booked Principal Recovery Amount), and 22 (Booked Interest and Fees Recovery Amount) on Schedule D.2 require firms to report certain information related to managed and booked receivables, which the commenter argues are duplicative in circumstances when securitized receivables are brought back onto a firm's balance sheet.

The Board has considered the comments submitted and has determined to not introduce any changes to the managed and booked receivables fields. The Board reviewed data collected in response to these items on the FR Y-14M, Schedule D.2. This review indicated that the reported information is not always duplicative, as not all reporters report the same value in the equivalent "managed" and "booked" fields in each period. Therefore, reporting information in each of these fields provides valuable data in support of the FR Y-14M's goals.

3. Credit scores for international borrowers

The Board proposed to set, when origination credit score is missing, a conservative value across all reported loans in the industry in that reporting period. This assumption is applied in

[175] 91 FR 29485 (May, 20, 2026).

the First Lien Model,[176] Home Equity Model,[177] Credit Card Model,[178] and Auto Model.[179] This treatment is consistent with the Board's treatment of erroneous or missing data outlined in Section 2.9 of the Stress Testing Policy Statement.[180]

One commenter stated that the proposed approach of applying a conservative value for credit score when the field is missing would result in disproportionate losses under the stress test compared to the true risk. This commenter also stated that this approach would be especially burdensome for firms with more international borrowers because such borrowers are more likely to lack FICO scores at origination.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Credit Risk Models Documentation for the reasons discussed below.

As described in the 2025 Credit Risk Models Documentation, the Board proposed to apply a conservative value for origination credit score when the field is missing an entry.[181] The Board's treatment is consistent with the Board's treatment of erroneous or missing data outlined in Section 2.9 of the Stress Testing Policy Statement.[182] Additionally, only a small minority of loans reported on the FR Y-14 Retail schedules have missing credit scores, and coverage is widespread across reporting firms, limiting the materiality of this assumption. Implementing other assumptions, such as imputing the credit score or using a more recent credit score than the

[176] *See* 2025 Credit Risk Models Documentation, 181.

[177] *See* 2025 Credit Risk Models Documentation, 322.

[178] *See* 2025 Credit Risk Models Documentation, 434.

[179] *See* 2025 Credit Risk Models Documentation, 525.

[180] 12 CFR 252, Appendix B, section 2.9.

[181] *See* 2025 Credit Risk Models Documentation, 181, 322, 434, and 525.

[182] 12 CFR 252, Appendix B, section 2.9.

origination date, would increase model complexity and would limit comparability, since credit scores pulled after the origination date are not necessarily comparable to the origination score, as credit scores tend to increase over the life of the loan as borrowers make payments. For these reasons, and given the Board's general principle of making conservative assumptions in situations where information is unavailable, the Board will use the assumptions for missing credit scores described in the proposal.

Considering the purposes of the Credit Risk Models, as well as the comments received and the Board's responses above, the Board considers the specification of geographic differentiation to be appropriate for the supervisory stress test, and has adopted the model as proposed.

I. Non-Retail Comments

1. Special Data Collection

One commenter recommended that the Board's Projected Sharing Table in the Board's most recent special data collection schedule[183] be expanded to include component financial data in the Projected Sharing Table, similar to the first table of the Credit Card RLSA and PSA Special Data Collection document, which captures actual values, presented with the resulting percentage clearly outlined for both the Severely Adverse and Baseline scenarios. The commenter argued that this itemization would provide the necessary detailed financial elements contributing to sharing arrangements, allowing for a more transparent analysis. This commenter also argued that the Board should capture this information for each quarter across the entire nine-quarter projection period, rather than solely as a cumulative figure, to allow for a more

[183] As described in the 2025 Credit Risk Models Documentation, the Board collected revenue and loss sharing agreements data as part of a special collection. 2025 Credit Risk Models Documentation, 487. As part of the Enhanced Transparency and Public Accountability Final Rule, the Board adopted revisions that enable collection of this data on the FR Y-14M report.

granular analysis of trends, shifts, and the temporal emergence of profit-sharing economics over time, particularly under various stress conditions.

The Board has considered the comments submitted and has determined to not adopt changes to the Board's previously issued special data collection for the reasons discussed below. Given the need to produce timely results for the 2026 Stress Test, the Board did not make changes to the Special Data Collection used for that exercise. In future exercises, the RLSA adjustment will use the new FR Y-14M Schedule D.3 and the new fields added to FR Y-14Q Schedule G.2.

III. Market Risk Models

A. Securities Model

As described in the 2025 Model Documentation, the Securities Model is important for accurately assessing whether firms are sufficiently capitalized to absorb losses on available-for-sale ("AFS") debt securities, held-to-maturity ("HTM") debt securities, and equity securities with readily determinable fair values not held for trading, during a period of severe stress.[184] Changes in unrealized gains and losses on AFS debt securities are adjusted for credit losses and applicable hedges and recorded in other comprehensive income ("OCI").[185] Credit losses on AFS and HTM securities, and unrealized gains and losses on equity securities with readily determinable fair values not held for trading, are recorded in pre-tax net income.[186] The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. Model Specification and Rationale

As described in the 2025 Model Documentation, the Securities Model generates projections for each applicable security and aggregates losses at the firm level using three steps.[187] First, the fair value of each AFS debt security and public equity security is projected over the projection horizon, conditional on the hypothetical severely adverse macroeconomic scenario. Second, credit losses are projected for AFS and HTM securities. Finally, pre-tax

[184] Board, Market Risk Models (October 2025), *https://www.federalreserve.gov/supervisionreg/files/market-risk-models.pdf* ("2025 Market Risk Models Documentation"), 7.

[185] *Id.*

[186] *Id.*

[187] *Id.*

unrealized gains and losses on AFS debt securities are calculated based on projected changes in fair value, adjusted for any projected credit losses and applicable hedges.

a. Reinvestment Methodology

As described in the 2025 Model Documentation, the current Securities Model utilizes a constant portfolio assumption as a simple and neutral way to maintain risk exposures and prevent balance sheet reductions without introducing behavioral assumptions for reinvestments.[188] The 2025 Model Documentation proposed an alternate approach whereby proceeds from maturing U.S. Treasury securities and Agency mortgage-backed securities ("Agency MBS") would be assumed to be reinvested into one-year U.S. Treasury securities.[189]

One commenter stated that the assumption that proceeds from maturing securities are reinvested into one-year U.S. Treasuries may not reflect typical practice and could significantly reduce interest income for firms that typically maintain longer duration positions. The commenter recommended an alternative assumption that reinvestments occur at durations consistent with each firm's jump-off positions, stating that this would improve accuracy and better align with actual asset-liability strategies.

One commenter encouraged the Board to refine the reinvestment assumptions in the Securities Model. According to the commenter, an assumption of reinvestment into one-year U.S. Treasury securities would understate expected revenue or lead to an overstatement of risk-weighted assets (RWAs), given the interplay with the flat balance sheet assumption. The commenter instead recommended the Board assume reinvestment of securities into an "industry average" or firm-specific mix.

[188] *See* 2025 Market Risk Models Documentation, 61.

[189] *See* 2025 Market Risk Models Documentation, 72–74.

One commenter suggested revising the AFS securities reinvestment assumption so that maturing securities are reinvested in a manner that is consistent with the overall duration of the portfolio for each banking organization.

One commenter supported the proposed reinvestment approach for U.S. Treasuries and Agency MBS. However, the commenter asked that the Board make its analysis of the reinvestment method public. The commenter requested that the Board document that the choice to model reinvestments based on portfolio maturities is a simplifying assumption, because the approach ignores duration needs arising from changes to a firm's deposit/loan profile and does not account for replacing duration aging from other runoffs such as HTM securities or accrual swap hedges. The commenter stated that the Board should also provide detail on how cashflows from hedges are reinvested and how subsequent cashflows from new securities are addressed in the PPNR Model. The commenter also stated that the calculation of RWAs and OCI in the Aggregation Model should reflect the relative difference in risk between U.S. Treasuries and the securities being replaced. The commenter noted that the assumption should also be extended to other securities beyond U.S. Treasuries and Agency MBS to avoid creating an internal inconsistency and an artificial disadvantage for credit-sensitive securities.

The Board has considered the comments submitted and has determined to adopt the proposed reinvestment methodology, in which maturing U.S. Treasury and Agency MBS balances are uniformly reinvested into 1-year U.S. Treasuries, as described in the final model documentation.[190] In addition, for the reasons described below, the Board has also determined to expand the application of this reinvestment methodology to all other securities in the Securities Model.

[190] *See* 2026 Market Risk Models Documentation, Section A.v.a.iii.

In determining to adopt the alternative reinvestment methodology proposed for U.S. Treasuries and Agency MBS, the Board considered comments supporting the introduction of aging and maturities within the securities portfolio. The Board also contemplated the effectiveness of the constant portfolio assumption (which the reinvestment methodology replaces), observing that its ignorance of pull-to-par effects may lead to mischaracterization of other comprehensive income in certain cases.[191] Adopting the alternative reinvestment methodology ensures appropriate capture of other comprehensive income across a wider range of potential scenarios, by explicitly accounting for interactions between portfolio aging and the scenario paths of variables driving changes in the fair value of securities.

The Board also considered comments on the use of 1-year U.S. Treasuries as the reinvestment security. One commenter supported this as a simplifying assumption, while others advocated that reinvestments should be more reflective of firm duration profiles, arguing that 1-year U.S. Treasuries may understate expected revenue or otherwise be inconsistent with asset-liability management activity expected over the projection horizon for a given firm. Commenters also asserted that the reinvestment of securities with non-zero risk weight into U.S. Treasuries (which have zero risk weight[192]) would be inconsistent with the flat balance sheet assumption. The Board recognizes that using 1-year U.S. Treasuries as the uniform reinvestment instrument is a simplifying assumption, and this is articulated in the 2026 Market Risk Models documentation. The Board explored alternative reinvestment assumptions that impacted both OCI and interest income on securities, including different maturity and security type

[191] For example, in a scenario where risk-free yields are projected to fall sharply at the beginning of the projection horizon, without retracing in later projection quarters, the constant portfolio assumption may lead to material overstatement of accumulated OCI over the projection horizon. *See* 2025 Proposed Model Changes Documentation, 25–27.

[192] 12 CFR 217.32(a)(1)(i).

assumptions. However, given the variety of potential post-hedge investment portfolio risk characteristics across firms, it was challenging to identify assumptions that robustly supported more risk-sensitive forecasts of OCI and interest income without explicitly accounting for different asset-liability management actions expected at the firm level. The uniform reinvestment of maturing securities balances into 1-year U.S. Treasuries projects reasonable duration and income for reinvestment balances in a simple and consistent manner, without tailored assumptions about future investment decisions by individual firms. This approach is aligned with the stress testing principles of simplicity, consistency and comparability, and robustness and stability.

The reinvestment methodology replaces the constant portfolio assumption. In determining to expand the proposed reinvestment methodology to all securities, the Board considered limitations of the current methodology, including its ignorance of pull-to-par effects. The Board also considered comments noting that the application of reinvestment to only U.S. Treasuries and Agency MBS (even if they represent a substantial majority of security holdings) for the purpose of OCI projection would result in (i) inconsistent OCI projections between U.S. Treasuries and Agency MBS relative to "Other" securities, and (ii) misalignment with the proposed structural PPNR Model for securities, where aging and reinvestment would be assumed when projecting interest income for "Other" securities.[193] Agreeing with these comments, the Board chose to adopt the reinvestment methodology across all security types, to achieve a consistent calculation of unrealized gains and losses for "Other" securities relative to U.S. Treasuries and Agency MBS. This approach resolves misalignment between the aging and

[193] *See* 2025 PPNR Model Documentation, 201–204. The proposed structural model for securities interest income assumes all maturities are reinvested into 1-year U.S. Treasuries and captures the income generated on reinvestments.

maturity assumptions underpinning projections of OCI relative to interest income for "Other" securities. It also ensures more appropriate capture of OCI across a wider range of potential scenarios for "Other" securities (as for U.S. Treasuries and Agency MBS), by explicitly accounting for interactions between portfolio aging and the scenario paths of variables impacting the fair value of "Other" securities.

b. Agency MBS Vendor Model

As described in the 2025 Model Documentation, the Securities Model includes a Fair Value Model that projects fair values for AFS debt securities and equity securities with readily determinable fair values not held for trading, based on the macroeconomic scenario. Within the Fair Value Model, fair values for Agency MBS are projected using a third-party vendor model ("Agency MBS Vendor Model").[194]

Multiple commenters requested that the Board release information on the methodology employed by the Agency MBS Vendor Model. One commenter explained that additional detail on the operations and mechanics of the Agency MBS Vendor Model would improve understanding of how scenario variables impact projected balances and prices. Additionally, the commenter requested that the Board provide information on any overlays or other adjustments incorporated in the Agency MBS Vendor Model, such as extrapolations for high- or low-coupon securities. The commenter also requested that the Board explain how the model captures scenario projections of certain variables, such as house prices.

The Board considered the comments submitted and determined to finalize the methodology for projecting the fair value of Agency MBS within the Securities Model. In

[194] *See* 2025 Market Risk Models Documentation, 10.

response to comments, additional detail on the Agency MBS Vendor Model is provided in Section A.iii.a.(1)(c) of the 2026 Market Risk Models Documentation.

In determining to finalize the vendor model-based projection of Agency MBS fair values, the Board considered comments requesting additional information on the Agency MBS Vendor Model calculations. To increase the transparency of the Board's projection of Agency MBS fair values, the 2026 Market Risk Models Documentation clarifies that the Agency MBS Vendor Model's standard stress testing workflow and model turnings are used without customization. Additionally, no overlay or modification is made to the price projections produced by the model for any given security. The final documentation also specifies the macroeconomic scenario data that is passed to the Agency MBS Vendor Model when it is queried for a scenario-conditional price projection for a given security.

c. Credit Loss Model

As described in the 2025 Model Documentation, the Securities Model includes a Credit Loss Model that projects credit losses for AFS and HTM securities over the projection horizon.[195] Credit losses are projected based on the probability of default, recovery rate, and amortized cost corresponding to a given security.[196] The Credit Loss Model's projections of credit losses distinguish between investment grade and speculative grade securities, among other attributes.[197]

Two commenters recommended that the Securities Model use a more risk-sensitive approach to estimate credit losses. One of the commenters stated that securities within the "investment grade" and "speculative grade" categories vary in risk characteristics. The

[195] *See* 2025 Market Risk Models Documentation, 48.

[196] *Id*.

[197] *See* 2025 Market Risk Models Documentation, 48–49.

commenter recommended that the Board specify probabilities of default and recovery rates that vary with credit rating and that credit losses be projected using the initial rating of a given security at jump-off.

The Board has considered the comments submitted and has determined to finalize the Credit Loss Model as described in the 2025 Model Documentation.

In determining to finalize the proposed Credit Loss Model methodology, the Board considered comments suggesting that the model should incorporate more granular credit ratings. Instead of the proposed methodology, which differentiates between investment grade and speculative grade securities, commenters suggested that projected credit losses vary with whole letter rating (i.e., AAA, AA, A). Additional rating granularity may improve risk sensitivity within the investment grade and speculative grade categories. However, the Credit Loss Model's segmentation scheme, which utilizes 10 asset class categories and two rating categories,[198] reasonably balances simplicity and risk sensitivity given that the model does not otherwise capture potential credit rating downgrades over the projection horizon. As a result, the Board determined to finalize the proposed Credit Loss Model.

d. Duration Approximation for "Other" AFS Securities

As described in the 2025 Model Documentation, the Securities Model projects the fair value for AFS debt securities other than U.S. Treasuries and Agency MBS (Other AFS Securities) using a linear duration-based approximation.[199] Under this approach, change in fair

[198] The 10 asset class categories are Auction Rate Securities, Corporate, Municipal, Sovereign, CMBS, CLO, CDO, ABS, Foreign RMBS and Domestic Non-Agency MBS. The two rating categories are investment grade and speculative grade. *See* 2025 Market Risk Models Documentation, 48–53.

[199] *See* 2025 Market Risk Models Documentation, 22.

value is based on a security's price sensitivity to changes in interest rates and OAS, as well as projected changes in interest rates and OAS over the projection horizon.[200]

One commenter suggested that the securities model approach to Other AFS Securities should be modified. For callable bonds, including municipal bonds, the commenter suggested that the model should use the option-adjusted duration of the bond instead of its maturity to determine the change in projected interest rate. The commenter stated that the call feature would generally be expected to materially shorten the life of such callable bonds. The commenter stated that, for callable bonds, assigning interest rate changes based on maturity instead of weighted average life or option-adjusted duration could lead to a tenor mismatch, and would not reflect a callable bond's sensitivity to shorter tenors of the yield curve, despite a longer dated maturity.

Additionally, the commenter recommended that the Board incorporate convexity into the duration approach used to value Other AFS Securities. The commenter stated that duration alone is insufficient to reliably approximate valuation changes, and omitting credit spread convexity could lead to an overestimated decline in fair value for floating rate credit products under large credit spread shocks.

The Board has considered the comment submitted and has determined to finalize the proposed duration-based approach to projecting unrealized gains or losses on Other AFS Securities as described in the 2025 Model Documentation, with targeted updates to incorporate aging, maturities, and reinvestments, for the reasons discussed below.[201] The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the

[200] *Id*.

[201] *See* 2026 Market Risk Models Documentation, Section A.iii.a.(1)(e).

model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining to finalize the proposed duration-based treatment of Other AFS Securities, the Board considered a comment suggesting that the duration-based approach should be refined to incorporate convexity and that interest rate changes applied to callable bonds should be based on effective duration rather than maturity. The Board's finalization of the duration-based approach prioritizes adoption of the reinvestment methodology without changing the core structure of the proposed duration-based treatment of Other AFS Securities. However, the Board considers the linear duration-based approach, where interest rate changes are applied based on maturity consistently for all direct obligations, to be a reasonable simplification for the minority of securities classified as "Other" (as further discussed in Section A.iii.b.(2) of the 2026 Market Risk Models documentation). This approach is aligned with the Stress Testing Policy Statement's principles of simplicity and consistency and comparability.

2. FR Y-14Q/M/A Reporting Forms

The Capital Assessments and Stress Testing information collection (FR Y-14) consists of the FR Y-14A, Q, and M reports.

a. Reporting Requirements for Securities Schedules

Schedule B of the FR Y-14Q collects data related to securities.[202]

One commenter stated that the Board should supplement and revise FR Y-14Q, Schedule B to improve modeling accuracy and remove undue data collection. The commenter

[202] Reporting Form FR Y-14Q Instructions, 52.

recommended that the Board revise FR Y-14Q, Schedule B.1 to exclude data items that are not relevant to equity securities, such as the "amortized cost" field.

One commenter recommended that the Board consolidate FR Y-14A schedules related to HTM and AFS securities. The commenter stated that Schedules A.3.f and A.3.g require firms to furnish information on projected amortized costs and provisions for credit loss for HTM and AFS securities across the nine-quarter planning horizon. The commenter asserted that requiring firms to populate data across multiple schedules for the same class of security imposes a significant burden on firms. The commenter stated that the Board should retire these schedules and instead collect some of this data on Schedule A.1.b by class of security.

The Board has considered the comments submitted and has determined to propose revisions to FR Y-14A, Schedule A,[203] and to propose revisions to FR Y-14Q, Schedule B,[204] to streamline reporting in support of stress test model workflows for securities.

In determining to propose revisions to Schedule B, the Board considered comments suggesting that reporting requirements for equities on Schedule B.1 could be reduced to exclude data items that are not relevant to equity securities. The Board agrees that certain data fields collected on Schedule B.1 with respect to equities can be removed without impacting fair value projections under the Securities Model. Accordingly, the Board is proposing Schedule B revisions that would remove the requirement to report amortized cost, current face amount, original face amount, price and pricing date for equities.

In determining to propose revisions to Schedule A, the Board considered a comment suggesting Schedules A.3.f and A.3.g, which collect detailed information by security type on

[203] *See* 2027 Models and Reporting Proposal, Section IV.A.5.

[204] *See* 2027 Models and Reporting Proposal, Section IV.A.5.

projected amortized costs and provisions for credit loss, be retired and instead some of this data be collected on Schedule A.1.b. The Board concluded that less granular reporting with respect to projected amortized costs and provisions for credit loss on securities would relieve reporting burden without materially impacting stress testing operations or the wider supervisory utility of FR Y-14A, Schedule A. Accordingly, the Board has proposed revisions retiring Schedules A.3.f and A.3.g.

B. Fair Value Option Model

The Fair Value Option ("FVO") Model ("FVO Model") projects gains and losses on loans subject to fair value accounting.[205] The FVO Model's projections enter as "other losses / gains" into the Board's calculation of pre-tax net income in the supervisory stress test.[206] The Board received several comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. Model Specification and Rationale

a. Wholesale Model

As described in the 2025 Model Documentation, the FVO Model contains three sub-models: a wholesale loan model ("Wholesale Model"), a retail loan model, and a model of loan hedges.[207] The Wholesale Model is used to project profit and loss ("P&L") on FVO and HFS corporate loans, as well as commercial real estate ("CRE") loans.[208]

[205] *See* 2025 Market Risk Models Documentation, 78.

[206] *See* 2025 Market Risk Models Documentation, 78–79.

[207] *Id*.

[208] *Id.*

(9) Loss Given Default (LGD) Assumption

As described in the 2025 Model Documentation, the proposed FVO Wholesale Model assumes a stressed LGD of fifty percent for all wholesale loans subject to fair value accounting, based on data regarding historical loan recovery outcomes since 1989.[209]

One commenter recommended that the Wholesale Model be revised to better reflect LGD for corporate and CRE loans by using the LGD models specified in the proposed Corporate Model and CRE Model within the Credit Risk Models. The commenter stated that the Board's assumption of a static LGD of 50 percent does not accurately reflect the variety of loans for which the Wholesale Model is used to project losses, including highly collateralized and other highly secured loans. The commenter acknowledged that, historically, the 50 percent LGD assumption may have been reasonable when FVO/HFS portfolios consisted mostly of corporate loans held to syndication. However, the commenter stated that FVO/HFS portfolios now contain more non-corporate loans, such as CRE and margin loans.

One commenter recommended that risk mitigants and hedges be incorporated into the stress test in ways that align with their risk-reducing nature, including in the FVO model. The commenter also argued that the FVO model should not use a linear model to project credit spread, arguing that the linear model does not reflect the convex behavior of credit instruments under large spread widening and can produce unrealistic valuations. Instead, the commenter recommended that the valuations under large spread moves be recovery-consistent and nonlinear.

One commenter suggested that the wholesale model should factor in recovery values, inclusive of collateral where applicable, to ensure projected loan prices do not fall below stressed recovery values.

[209] *See* 2025 Market Risk Models Documentation, 97.

The Board considered the comments submitted and is adopting the proposed methodology for projecting FVO and HFS wholesale loan fair values in the final FVO Model, with some changes. The Board is altering the proposed uniform 50 percent LGD assumption and instead incorporating a lower 40 percent LGD assumption for CRE and senior secured corporate loans and a higher 65 percent LGD assumption for junior or unsecured corporate loans. In addition, the Board is flooring projected fair values based on loan recovery assumptions and relaxing the linear approximation of credit spread impact. The Board's revised methodology is described in Equations B.7 and B.14 of the 2026 Market Risk Models Documentation.[210]

In determining the final FVO Model specification, the Board considered comments suggesting that risk reducing mitigants, such as the collateralization status of a loan, be incorporated into loss projections. The Board also considered comments that supported aligning the FVO Model with the more risk-sensitive LGD assumptions made for HFI loans; these comments argued that a static LGD of 50 percent is inadequate to capture variation in recovery risk, particularly between secured and unsecured exposures. Finally, the Board considered comments suggesting that wholesale loan fair value projections should decline at a decreasing rate as credit spreads widen and ultimately be floored by a given loan's projected recovery value. The Board concluded that bifurcating the LGD assumption applied to secured versus unsecured FVO and HFS wholesale loans would better capture the impact of severe economic stress on each type of exposure. This bifurcated approach would result in a more consistent treatment of recovery risk between FVO/HFS and HFI loans, aligned with the stress testing principle of

[210] *See* Board, 2026 Market Risk Models Documentation, available at https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2027.htm ("2026 Market Risk Models Documentation), Section B.iii.a.

consistency and comparability.[211] In addition, the Board concluded that flooring projected fair values based on loan recovery assumptions and relaxing the linear approximation of credit spread impact would ensure that the LGD assumptions are incorporated coherently into the fair value projection framework for FVO/HFS loans.[212] Under this approach, irrespective of the degree of credit spread widening depicted in a given scenario, the projected fair value of any loan will not fall below its worst-case, default-contingent recoverable amount.

(10) Model Segmentation and Granularity

As described in the 2025 Model Documentation, the proposed FVO Wholesale Model segments interest rate risk based on a given loan's fixed or floating rate status, coupon, and maturity. Credit risk is segmented by whole letter rating and draw rates against unfunded commitments vary by broad loan type, distinguishing corporate and commercial real estate loans.[213]

One commenter recommended revising the Wholesale Model to incorporate fronting commitments, which represent a bank's commitment to advance funds on behalf of a lending syndicate. The commenter stated that fronting commitments should be treated differently from general wholesale commitments because realization of loss on fronting obligations is contingent upon a default by both the underlying corporate client and sufficient members of the syndicate such that the commitment to the corporate client cannot be met.

One commenter recommended that the Wholesale Model incorporate FLEX protection in the calculation of HFS portfolio pricing. The commenter stated that firms often negotiate FLEX

[211] *See* 12 CFR 252, Appendix B, section 1.3.

[212] The linear approximation of credit spread impact was originally proposed as a practical expedient for floating rate loans only.

[213] *See* 2025 Market Risk Models Documentation, 84–88.

protection with a borrower to guard against changes in the credit environment that occur between committing a price to a borrower and completing the process of syndicating the risk. The commenter suggested that the Board should include the impact of FLEX protection to reduce losses on loans in the process of syndication. The commenter asserted that this change would improve the model's accuracy in estimating pricing and would not increase yield at par.

One commenter noted that the Wholesale Model would assume that unfunded CRE loans are immediately fully funded.[214] The commenter stated this assumption should not apply to construction loans and the Wholesale Model should instead assume that the construction loan balances increase evenly over a fixed period, such as five to six quarters. The commenter suggested that this assumption could be limited to loans with more than two years until maturity.

The Board considered the comments submitted and determined to introduce additional sensitivity into the Wholesale Model's LGD projections to incorporate loan collateralization status. The Board is otherwise finalizing the model's proposed risk segmentation scheme as described in the 2025 Model Documentation, where modeled duration depends on loan maturity, fixed or floating status, and coupon, while projected spread shocks vary by whole letter loan rating and draw rates against unfunded commitments vary between corporate and commercial real estate loans, for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider future changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

[214] *See* 2025 Market Risk Models Documentation, 98.

In determining to introduce variation in the model's LGD projections by collateralization status but otherwise retain the model's proposed risk segmentation scheme, the Board considered comments advocating for more granularity, capturing additional loan contractual features, or further differentiating projection assumptions for certain types of loans. Construction CRE loans, FLEX protection in syndication, and fronting exposures each account for a relatively small proportion of the overall wholesale FVO/HFS loan population addressed by the model. In addition, incorporating these changes recommended by commenters would introduce meaningful additional model complexity and reporting burden. Therefore, the Board has determined to adopt, with the addition of collateralization status, the FVO Model segmentation scheme as described in the 2025 Model Documentation.

b. Retail Model

As described in the 2025 Model Documentation, the second FVO Model sub-model is a retail loan model ("Retail Model") that is used to project P&L on FVO/HFS residential mortgages and other consumer loans.[215]

(1) Duration and Spread Shock Assumptions

As described in the 2025 Model Documentation, the Retail Model uses a simple duration approximation to determine P&L in response to projected credit spread shocks that vary by broad loan type[216] and, in the case of mortgages, to determine P&L resulting from interest rate

[215] *See* 2025 Market Risk Models Documentation, 79.

[216] The model distinguishes 5 broad loan types: residential/mortgage loans, auto loans, student loans, credit cards and all other non-residential loans. *See* 2025 Market Risk Models Documentation, 113.

shocks.[217] Retail loan durations are derived from third-party vendor data on structured finance tranches and vary by broad loan type and vintage.[218]

One commenter stated that the FVO loan models should update loan durations and spread shocks to better align with market reforms related to safety and soundness since the passage of the Dodd-Frank Act. The commenter stated that the current models are overly simplistic and do not reflect post-crisis reforms, such as those imposing stricter loan underwriting and disclosure requirements that have improved loan quality for residential mortgage loans. The commenter provided analysis that the commenter described as demonstrating that certain post-crisis reforms have improved residential mortgage loan quality. Based on this analysis, the commenter suggested that assumed loan durations for residential mortgage loans should be reduced by 20 percent relative to the proposed model and that the assumed stressed spread levels for such loans should be lowered to between 240 and 430 basis points to align with the commenter's view of the peak in the 2008 financial crisis. The commenter also suggested that the residential mortgage model should differentiate based on creditworthiness, similar to the approach taken for HFI loans.

One commenter recommended that the FVO retail model include an estimate of interest rate duration for projections of fixed rate consumer, non-residential loans, such as student loans. The commenter asserted that these loans have interest rate sensitivity that is not captured under the current model, and thus, in a falling rate scenario, firms may not receive the benefit of the increase in the value of these loans.

[217] *See* 2025 Market Risk Models Documentation, 111–16.

[218] *See* 2025 Market Risk Models Documentation, 111–12.

One commenter recommended that the FVO retail model account for shorter rate durations of certain residential loans, instead of assuming a fixed rate duration based on loan type and vintage. The commenter noted that some products, such as jumbo mortgages, typically have a shorter duration. The commenter stated that the use of a fixed duration can materially overstate interest-rate sensitivity and effective durations in a falling interest-rate environment, resulting in higher modeled P&L. Instead, the commenter suggested that the Board should refine its estimate of residential loan duration or collect and use firms' own estimates of duration for these loans. The commenter also recommended that, if the Board decided to use firms' estimates of duration for such loans, the Board should add an item to FR Y-14Q, Schedule J to collect firm-provided duration estimates.

The Board has considered the comments submitted and has determined to finalize treatment of FVO / HFS retail loans as described in the 2025 Model Documentation, with the addition of segmentation by FICO score and LTV to the projection of residential loan spread shocks, for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining the final model specification, the Board considered a comment suggesting that the degree of spread widening applied to residential mortgage loans is too severe relative to the general credit quality of post-2008 financial crisis issuance and that segmentation by borrower creditworthiness would improve the risk sensitivity of the model. In addition, the Board considered comments suggesting that, for residential loans, the fixed duration assumptions

by vintage may be too high on average and fail to capture variation between different types of residential loan, while for non-residential loans, the zero interest rate duration assumption may not be appropriate for loan categories where fixed rate products are common. The Board concluded that spread shock differentiation within the Retail Model would better capture varying loan credit quality over time and between firm portfolios, and accordingly has augmented the proposed FVO Model specification to distinguish residential mortgage loan spread shocks by loan origination FICO score and LTV,[219] aligning more closely with the risk segmentation followed for held-for-investment mortgages and utilizing FVO mortgage data reported on the FR Y-14M. The Board concluded, with the addition of FICO and LTV as risk factors, that the granularity of the model as proposed otherwise achieves a reasonable balance between capturing risks and simplicity, while effectively utilizing the available FR Y-14 data in a manner that is consistent with the principles of simplicity and robustness and stability in the Board's Stress Test Policy Statement.[220] Therefore, the Board has determined to adopt the duration assumptions as proposed in the final FVO Model.

(2) Loan Hedge Model

As described in the 2025 Model Documentation, the third FVO Model sub-model is a model of loan hedges (Loan Hedge Model) that is used to project P&L on banking book loan hedges not qualifying as accounting hedges, covering both hedges placed against FVO/HFS loans (FVO Hedges) and hedges against accrual loans (AL Hedges).[221]

[219] *See* 2026 Market Risk Models Documentation, Section B.iv.a.(2), Equation B-23.

[220] *See* 12 CFR 252, Appendix B, section 1.5.

[221] *See* 2025 Market Risk Models Documentation, 79.

c. Synthetic Securitizations

As described in the 2025 Model Documentation, P&L on synthetic securitizations is determined by the Loan Hedge Model, as for all other loan hedge types, by combining a set of scenario-specific risk-factor projections with corresponding risk factor P&L sensitivities reported by firms to FR Y-14Q, Schedule F.[222]

One commenter stated that the Board should recognize the credit risk mitigation effects of synthetic securitizations in the stress test or, if already recognized, explain the mechanics by which such credit risk mitigations are incorporated. The commenter stated that the Board should disclose how it has reflected past informal collection data regarding synthetic securitization risk transfer hedges in the stress test results. Another commenter recommended revising the Loan Hedge Model to recognize the risk mitigation benefits of tranched securitization hedges by collecting and incorporating tranche-level information, including attachment and exhaustion points. The commenter asserted that the model's current assumption of a static spread duration by product group significantly understates the credit protection of tranched hedges.

The Board has considered the comments submitted and has determined to finalize the Loan Hedge Model as described in the 2025 Model Documentation.

In determining to maintain the proposed Loan Hedge Model methodology, the Board considered comments on the proposed treatment of synthetic securitization hedges, including comments that sought clarity on the methodology and recommended a more detailed approach supported by the collection of tranche-level information not currently included on the FR Y-14Q. Consistent with the proposal, synthetic securitization hedges would be projected via the Loan Hedge Model, equivalently to other hedge exposures addressed by the model, based on AL

[222] *See* 2025 Market Risk Models Documentation, 118–20. In addition, Equation B-31 provides the treatment of securitized product hedges. *Id.* at 123.

Hedges or FVO Hedges exposure and sensitivity data collected within FR Y-14Q Schedule F.[223] Informal data collections on this topic were used to implement substantially the same calculation in past stress tests - one which captures changes in hedge fair value based on the macroeconomic scenario, but does not explicitly capture the impact on the credit protection of realized credit losses projected on underlying loan assets. The Board recognizes that improvements in projection granularity could result from expanding data collected with respect to synthetic securitizations and explicitly capturing the impact of realized credit losses projected on underlying loan assets and will continue to consider such changes for inclusion in future proposals. However, the Board determined that the proposed Loan Hedge Model methodology is reasonable in the context of the FR Y-14Q data currently available, aligns with the Trading P&L Model's treatment of similar positions held in the trading book, and is consistent with the Board's principles of simplicity and robustness and stability from the Stress Test Policy Statement.[224] As a result, the Board is adopting the Loan Hedge Model as proposed.

2. FR Y-14Q/M/A Reporting Forms

The Capital Assessments and Stress Testing information collection (FR Y-14) consists of the FR Y-14A, Q, and M reports. These reports are used as inputs in the Board's stress test models.

a. Reporting Requirements for Hedges Schedules

The Capital Assessments and Stress Testing Report (FR Y-14Q) collects detailed data on bank holding companies', intermediate holding companies', and covered savings and loan holding companies' various asset classes, capital components, and categories of pre-provision

[223] *See* 2026 Market Risk Models Documentation, Section B.v.a.

[224] *See* 12 CFR 252, Appendix B, section 1.5.

net revenue on a monthly or quarterly basis.[225] This data is used to support supervisory stress testing models and for continuous monitoring efforts.[226] Schedule F (Trading) of the FR Y-14Q is designed to capture P&L sensitivities to positions firms hold in their trading books, private equity investments, FVO loan hedges, and certain other assets under fair value accounting.[227]

One commenter stated that the Board should clarify what it meant by "submissions are not required" in the proposed instructions for FR Y-14Q, Schedule F for FVO Hedges, AL Hedges, or PE hedge submission types.

The Board has determined to adopt, with additional clarifications, proposed revisions to FR Y-14Q Schedule F that would allow submission types "FVO Hedges", "AL Hedges" and "PE Hedges" (the "Hedge Schedules") to be filed by all firms, rather than being restricted to firms with significant trading operations.[228]

In determining to adopt the extension of Hedge Schedule reporting to cover all firms, the Board considered comments requesting clarity around the stipulation in the proposed instruction language that although Hedge Schedule data could be submitted be any firm, submissions would not be "required." The final instructions clarify that the submission of each Hedge Schedule is optional except that (i) if a firm chooses to report a given hedge type (for example, "AL Hedges"), then all relevant worksheets within Schedule F must be reported with respect to that hedge type and (ii) once that hedge type has been reported for a given reporting quarter, it must be reported for each subsequent quarter. This discretion is provided to reduce reporting burden

[225] Reporting Form FR Y-14Q Instructions.

[226] *Id.*

[227] Reporting Form FR Y-14Q Instructions, 90.

[228] *See* Enhanced Transparency and Public Accountability Final Rule, Section IV.D.

for firms with immaterial hedge balances who choose to forgo the inclusion of loss mitigation associated with a given hedge type in the Board's stress test projections.

b. Reporting Requirements for FVO Loans

One commenter recommended that the Board amend the FR Y-14 instructions to align reporting requirements, eliminate duplicative processes, and reduce regulatory burden. As an example, the commenter stated that firms are required to report certain FVO loans on FR Y-14Q, Schedule J as well as on FR Y-14M, Schedule A.

The Board has determined to adopt the proposed FR Y-14Q/M data collection for FVO / HFS retail loans. Summary carry value information would be reported on FR Y-14Q, Schedule J across retail loan types and loan level information would be reported on FR Y-14M, Schedules A and B for FVO / HFS residential loans.

In determining to adopt these reporting requirements for FVO / HFS retail loans, the Board considered a comment suggesting that the Board should eliminate duplicative data collections to reduce reporting burden that cited FVO / HFS retail loans as an example. The Board considered the degree of overlap between the data collected by the FR Y-14M and the FR Y-14Q for FVO / HFS retail loans as well as the utility of these two data collections both with respect to the final FVO Model and for potential future model enhancements. The Board concluded that since, in projecting FVO / HFS retail loans, the final FVO Model currently depends both on (i) loan level mortgage data reported on FR Y-14M, Schedules A & B and (ii) aggregate carry value data reported on FR Y-14Q, Schedule J, entirely eliminating retail FVO reporting from either the FR Y-14M or FR Y-14Q would not be feasible without impacting final model specifications or the scope of potential future model revisions under consideration by the Board. As such, the Board is adopting the proposed FR Y-14Q/M data collection for FVO / HFS retail loans as proposed.

C. Trading Profit and Loss Model

As described in the 2025 Model Documentation, the Trading Profit and Loss Model (Trading P&L Model) estimates GMS mark-to market impacts on trading book positions, which enter as realized losses into projected pre-tax net income in the first quarter of the stress test horizon.[229] The Trading P&L Model is applied to firms subject to the GMS, which generally includes firms with substantial trading operations, and is important for assessing whether such firms are sufficiently capitalized to withstand a financial market stress event that coincides with a severe recession.[230]

1. Model Specification and Rationale

a. Second Order Risks

As described in the 2025 Model Documentation, the Trading P&L Model has two components depending on the trading book asset being modeled: (i) a Market Value Component, which stresses market values for certain trading positions reported in FR Y-14Q, Schedule F by applying haircuts as prescribed in the GMS, and (ii) a Sensitivity-Based Component, which produces stress loss estimates for the remainder of the trading positions reported in FR Y-14Q, Schedule F, using a sensitivity-based approximation of portfolio risk.[231] These components generally capture the majority of risk in exposures shocked through Trading P&L Model. To capture higher order risks, the Trading P&L Model uses Higher Order Risk Add-Ons to account for key non-linear risks.[232] Specifically, as described in 2025 Market Risk Models documentation, the Trading P&L model applies Higher Order Risk Add-Ons for non-linear P&L

[229] *See* 2025 Market Risk Models Documentation, 176.

[230] *Id.*

[231] *See* 2025 Market Risk Models Documentation, 176–177.

[232] *See* 2025 Market Risk Models Documentation, 191.

exposure to large directional interest rate shocks, simultaneous price-level and volatility shocks within equities, and simultaneous price-level and volatility shocks within commodities.[233]

One commenter recommended leveraging aspects of FR Y-14A Schedule A.4 (Trading P&L) attribution data to better capture second order risks in the Trading P&L Model. The commenter stated that, because the Trading P&L Model uses sensitivity-based calculations, it does not comprehensively capture higher order and cross-asset risks, like second-order volatility risk in equities, rates, commodities, and foreign exchange. Additionally, for asset classes where the Board uses FR Y-14A Schedule A.4 estimates, the commenter stated that the Board could utilize its current sensitivity-based methodology along with the spot volatility grids provided in FR Y-14Q, Schedule F as a benchmark. The commenter said that the Board could continue to use its current approach for linear risks.[234]

The Board has considered the comment and has determined to adopt the Trading P&L Model as described in the 2025 Model Documentation. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining not to adopt the use of FR Y-14A.4 Trading P&L attribution data to capture second-order risks, the Board considered a comment recommending the use of this data to better capture higher order and cross-asset risks, such as second-order volatility risk in

[233] *See* 2025 Market Risk Models Documentation, 191–99.

[234] *See* 2025 Market Risk Models Documentation, 177, note 175 ("Linear risk denotes exposure to a risk factor such that P&L responds in a linear fashion, i.e., for each additional unit move in the risk factor a consistent amount of additional profit or loss is realized. This contrasts with non-linear risks or exposures, where each additional unit of risk factor shock produces a varying rather than constant P&L impact.").

equities, rates, commodities, and FX. The current approach of using a combination of market value and sensitivity-based components, along with higher order risk add-ons, reasonably captures the risk in exposures shocked through the Trading P&L Model while aligning with the stress testing principles of consistency and comparability, as well as independence. While using firm projections of FR Y-14A A.4 second order risk P&L might provide more precision, the current framework is effective in capturing material trading risks and using firm projections as suggested by the commenter is not warranted and would also introduce additional complexity. Individual firms' models are more detailed in capturing their specific higher-order risks. However, a standardized approach that uses independent assumptions applied consistently across all covered firms is more effective for stress testing purposes, as well as consistent with the stress testing principles of independence and consistency and comparability.

b. Asset Class Level Disclosures

Annual disclosure of stress testing results provides results at the aggregate trading and counterparty level as well as, to individual firms, the nine-quarter path of their firm-specific Trading results.

One commenter stated that results of the Trading P&L Model by asset class should be included in firm-specific disclosures to enhance transparency regarding the results.

The Board has considered the comment submitted and has determined not to adopt the recommendation to include Trading P&L Model results by asset class in firm-specific disclosures.

Disclosing aggregate trading and counterparty stressed losses over the nine-quarter path strikes the appropriate balance between transparency and supervisory effectiveness while preserving the forward-looking nature of the supervisory stress test. This level of aggregation provides firms with sufficient information to understand their stress test results, and is further

supplemented by the detailed description of the Trading P&L Model in the public model documentation.

c. Floor on Results

In the 2025 Model Documentation, the Board requested feedback on a proposed approach that would include the imposition of a floor on losses calculated by the Trading P&L Model, as compared to the Board's current approach where Trading P&L Model results are included in pre-tax net income without adjustment.[235]

One commenter did not support flooring results from the Trading P&L Model and recommended that the Board retain the current approach in which Trading P&L results are included in pre-tax net income without adjustment, whether positive or negative. The commenter argued that the SCB already provides a floor, so there is no need for additional floors.

The Board has considered the comment submitted and has determined not to adopt a floor on the losses calculated by the Trading P&L Model. In determining to retain the current approach, the Board considered that this approach appropriately reflects the nature of trading book exposures comprised of both long and short positions. While the 2025 Model Documentation notes that implementing a loss floor could prevent cases where positive GMS Trading P&L detracts from the capitalization of risks beyond the scope of the Trading P&L Model, the existing SCB floor provides adequate protection without requiring an additional model-specific floor that could distort the symmetric treatment of gains and losses in trading portfolios.

[235] *See* 2025 Market Risk Models Documentation, 205.

d. Agency Pass-Through Securities

One commenter suggested that the Board should apply a post-shock price floor to agency pass-through securities if the Board were to continue to use the current FR Y-14Q-based Trading P&L Model. The commenter stated that this floor should be based on the price of the corresponding to-be-announced ("TBA") securities. The commenter asserted that without such a floor, the Trading P&L Model would overstate the losses for the pass-through securities. As an alternative approach, the commenter suggested that the Board amend the FR Y-14Q submission to collect data on pay-ups (the premium of deliverable pass-through securities over the corresponding TBA securities) and apply a percentage haircut on these pay-ups, while keeping the spread shocks applied to both pass-through pools and TBA securities at the same level. Until such changes to the FR Y-14Q can be implemented, the commenter suggested that GMS shocks applied to agency pass-through securities should distinguish between deliverable and non-deliverable pools through the use of a special data collection, with a lower shock applied to deliverable pools. Alternatively, the commenter suggested that the Board could reduce the spread shock to pass-through securities.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the February 2026 Global Market Shock Component Documentation and 2025 Market Risk Models Documentation.

Implementing a pay-up-based methodology would require the reporting of detailed information on the pay-up amounts for all pass-through securities relative to the corresponding TBA securities. This information is not currently captured in the current FR Y-14Q reporting template and is not otherwise available. Instead, to improve the consistency of the price relationship between pass-through securities and TBA securities, the Board made the following assumptions in the 2026 Final Supervisory Stress Test Scenarios in consideration of the

comments made on the 2026 proposed GMS scenario.[236] First, the Board assumed that 90 percent of firms' pass-through securities are deliverable pass-through securities whose shocks are equal to TBA securities. Second, only the remaining 10 percent of pass-through securities are not considered deliverable and feature a higher shock relative to TBA securities. By assuming that the majority of the pass-through security shocks are the same as the TBA security shocks, the Board has mitigated the potential pricing inconsistencies between pass-through and TBA securities. The Board has considered available academic literature and data to determine the appropriate magnitude by which to reduce pass-through shocks. In the future, the Board expects to apply a similar weighting assumption as in the final 2026 stress test scenarios for pass-through securities—that is, assuming that the majority are deliverable pass-through securities and share the same shock as TBA securities, and that only a small portion are non-deliverable pass-through securities and feature a higher shock.

Meanwhile, the methodology in the Trading P&L Model regarding agency products loss calculation will remain the same. Although the commenter's recommendation could increase the granularity of the GMS shock template and FR Y-14Q reporting template, the Board's approach aligns with the stress testing principle of simplicity.[237]

Considering the purposes of the GMS component and the Trading P&L Model,[238] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications to be appropriate for the supervisory stress test, and has adopted the Trading P&L Model as proposed.

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[236] Board, 2026 Scenarios Review of Comments, available at, 42–44.

[237] 12 CFR 252, Appendix B, section 1.4.

[238] Board, Final 2026 Global Market Shock Component (Feb. 2026), available at *https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm*, 4–6; 2025 Market Risk Models Documentation, 176.

2. FR Y-14Q, Schedule F

The FR Y-14 consists of the FR Y-14A, Q, and M reports. As described in the 2025 Market Risk Models Documentation, the Trading P&L Model utilizes exposures and sensitivities reported by firms in FR Y-14Q, Schedule F (Trading), to generate its P&L estimates.[239]

a. Reporting of To-Be-Announced Securities (TBAs)

As described in the 2025 Market Risk Models Documentation, the Sensitivity-Based Component of the Trading P&L Model is used to shock Agencies (including separate shocks for TBAs and pass-throughs), using sensitivities to option-adjusted spread widenings.[240]

One commenter recommended that the Board add items to FR Y-14Q, Schedule F.15 to collect dollar pay-up values of pass-through pools to their corresponding TBAs, in order to help capture dynamics of the TBA/pass-through trade where the TBA price limits the downside of pass-through securities due to the ability of those securities to be delivered into the TBA.

The Board has considered the comment submitted and has determined not to adopt changes to FR Y-14Q, Schedule F.15 to collect dollar pay-up values of pass-through pools to their corresponding TBAs for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining not to add items to FR Y-14Q, Schedule F.15 to collect dollar pay-up values, the Board notes that the GMS shocks were adjusted in the 2026 scenario to account for

[239] *See* 2025 Market Risk Models Documentation, 176–77.

[240] *See* 2025 Market Risk Models Documentation, 190.

the downside limits on the pass-through securities described by the commenter. The Board will monitor additional information about these markets, continuing to account for these downside limits, and may reassess the need for data collection if the adopted approach proves insufficient. In making this determination the Board also considered the stress testing principle of simplicity, as well as an interest in minimizing information collections.

b. Reporting of Funds

In the Enhanced Transparency and Public Accountability proposal, the Board proposed to clarify the FR Y-14Q, Schedule F instructions to explain that all ETFs should be reported based on the underlying asset holdings and associated risk factors.[241]

One commenter stated that firms should be allowed to treat non-decomposed funds as a single name equity reported in the equity worksheet because it is not practical to decompose all positions in funds such as ETFs and mutual funds. The commenter recommended that the Board add a reporting section within FR Y-14Q, Schedule F.1 for non-decomposed positions in funds by asset types and provided a template for this suggestion. The commenter stated that this would allow firms that cannot fully decompose funds to classify each position according to its predominant asset type. According to the commenter, this would enable more precise isolation and application of shocks aligned with the underlying risk factors of those asset types as well as promote appropriate risk-factor and shock-size alignment while materially reducing operational complexity and improving consistency across firms. If this additional reporting were not implemented on Schedule F.1, the commenter suggested that the Board could collect the same information via an informal data collection. Alternatively, the commenter recommended

[241] 90 FR 51856, 51936 (Nov. 18, 2025).

allowing firms to use a beta approach to report the P&L grid from non-decomposed positions in funds into the more appropriate equity slide stress bucket.

The Board has considered the comment submitted and has determined to adopt the proposed clarification that all ETFs should be reported based on the underlying asset holdings and associated risk factors as described in the Enhanced Transparency and Public Accountability Proposal, and to not adopt the commenter's proposed alternative approaches, for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining to finalize the proposed clarification requiring fund decomposition, the Board considered a comment recommending that firms be allowed to treat non-decomposed funds as a single name equity and suggesting alternative reporting approaches, including a dedicated reporting section within FR Y-14Q, Schedule F.1 for non-decomposed positions by asset type or a beta approach for mapping positions to stress buckets. The commenter asserted that full decomposition of all fund positions, including ETFs and mutual funds, is not practical. However, the decomposition approach as proposed provides the most accurate capture of underlying risk exposures because it best aligns the asset class shocks with the intended asset class exposures. Reporting all such funds as equities would not differentiate different types of risk. While the commenter argued that its proposed alternative approaches would enable more precise shock alignment, reduce operational complexity, and improve consistency across firms,

these approaches could increase model and/or information collection complexity while not necessarily improving risk capture meaningfully.

c. Supporting Documentation

In the Enhanced Transparency and Public Accountability proposal, the Board proposed to introduce supporting documentation for FR Y-14Q, Schedule F that included five questions related to a firm's trading projections and Schedule F submissions.[242]

One commenter recommended that the Board not adopt the requirement that firms provide supporting documentation for FR Y-14Q, Schedule F, noting that some of the requested information had previously existed in the FR Y-14A instructions.

The Board has considered the comment submitted and has determined not to adopt the requirement that firms provide supporting documentation for FR Y-14Q, Schedule F.
In determining not to adopt this requirement, the Board considered a comment that opposed requiring firms to provide supporting documentation for Schedule F, and determined that the existing reporting requirements provide sufficient information for supervisory purposes. While the supporting documentation could provide additional detail, the standardized data fields in Schedule F already collect the necessary information for risk assessment and monitoring purposes. As a result, the Board has determined not to adopt the requirement for firms to provide supporting documentation for Schedule F.

d. Streamlining

One commenter recommended that the Board remove data items from FR Y-14Q, Schedule F that are not used in stress test models. The commenter stated that reporting such data provides no clear benefit but increases reporting burden and that some of the required items are

[242] 90 FR 51856, 51934 (Nov. 18, 2025).

not risk-based and not used in business as usual risk management but require additional controls and governance for reporting

The Board has considered the comment submitted and has determined not to adopt the proposed change to remove the data items from Schedule F at this time. The Schedule F data items are valuable in the validation process for the stress test models, and also support monitoring and risk assessment activities. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications or validation process, as well as revisions to regulatory reports, in the future. Any future model changes would be made consistent with the enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

D. Private Equity Model

As described in the 2025 Model Documentation, the Board proposed to use the Private Equity Model to estimate losses on private equity investments in the hypothetical severely adverse macroeconomic scenario, with losses entering projected net income as unrealized changes in fair value.[243] The Private Equity Model is important for accurately assessing whether firms would be sufficiently capitalized to absorb the material stress to their private equity holdings that could manifest in a severe recession. The Private Equity Model is applied to private equity carry values reported in FR Y-14Q, Schedule F.24 (Private Equity), which, as of 2025 year-end, total approximately $50 billion. The Private Equity Model depicts the relationship between private and public equity markets to project the magnitude of private equity losses that would result when public markets decline by a certain percentage, as specified in the macroeconomic scenario.

[243] 2025 Market Risk Models Documentation, 154.

1. Use of Carry Value

Several commenters suggested that the Board should modify the use of initial carry value in the Private Equity Model to incorporate additional granularity for certain investment types. These commenters stated that the Board could differentiate treatments for exposures where the initial fair value differs from carry value, in line with an alternative presented in the model documentation.[244] Additionally, these commenters recommended that the Board revise the carry value of investments in unconsolidated financial institutions to incorporate modeled mark-to-market losses under stress.

The Board has considered the comments submitted and has determined to retain the model specifications as described in the 2025 Model Documentation. The Board considered alternative methods for computing the exposure basis for projections, as suggested by the commenters, but found that the proposed model best adheres to the Stress Testing principles of simplicity, consistency and comparability and robustness and stability.[245] Specifically, carry value, as an audited balance sheet item, is a simple and robust exposure measure, available and comparable across firms' private equity investments, and consistent with related risk-weighted asset measurement. Further, as described in Section D.iv of the 2026 Market Risk Models Documentation, the alternative could produce economically unintuitive or undesirable outcomes; i.e., the fair value of exposures could decline without any associated capital impact, or, conversely, stress losses could be assigned in the absence of projected fair value declines.

The Board also considered comments advocating that fair value losses, as projected on private equity investments in unconsolidated financial institutions ("UFI"), should be reflected in

[244] *See* 2025 Market Risk Models Documentation, 172–73.

[245] 12 CFR 252, Appendix B, sections 1.3, 1.5.

UFI threshold deduction calculations (wherein aggregate UFI balances projected to exceed a common equity tier 1-based threshold are deducted from capital). However, the Board determined to adopt the proposed treatment of UFI threshold deductions, in which aggregate jump-off UFI balances enter deduction calculations, decremented only for realized mark-to-market P&L on trading book UFI exposures. Given the variety of measures used to determine their carrying value, holding banking book UFI balances constant at their jump-off levels, for the purpose of threshold deduction calculations, and retaining the Private Equity Model as proposed (which excludes from carry value, stock in unconsolidated financial institutions that are not counted in common equity tier 1 capital at jump-off[246]), is considered a reasonable simplification, aligned with the policy statement principles of simplicity and conservatism, and consistent with the constant risk-weighted asset assumptions generally applied to banking book UFI investments.[247]

Considering the purposes of the Private Equity Model,[248] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Private Equity Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

2. Security Priority

One commenter suggested that the Private Equity Model should differentiate across levels of security priority for private equity exposures to better align projected losses with the risk characteristics of specific instruments. The commenter stated that the Board could calibrate

[246] 2025 Market Risk Models Documentation, 170.

[247] 12 CFR 252, Appendix B, sections 1.4, 1.6, and 3.4.

[248] 2025 Market Risk Models Documentation, 154.

the sensitivity of private equity fair values to movements in the public stock market separately for instruments with preferred or senior priority.

The Board has considered the comments submitted and has determined to retain the model specifications as described in the 2025 Model Documentation. In designing the proposed model, the Board considered available data, academic literature, and model performance testing analysis to choose the level of granularity in the Private Equity Model.[249] While differentiating by security priority could improve the risk capture of the model, additional data collection from firms and analysis of that data would be necessary to evaluate and implement this approach. The Board regularly assesses the performance of the supervisory stress test models and may consider future changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

Considering the purposes of the Private Equity Model,[250] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Private Equity Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

3. Embedded goodwill

Comments recommending changes to the Board's approach to modelling embedded goodwill in the Private Equity Model are addressed below in Section V.D.

4. Schedule Changes

[249] 2025 Market Risk Models Documentation, 158–170.

[250] 2025 Market Risk Models Documentation, 154.

One commenter recommended that rows for funded and unfunded small business investment company ("SBIC") exposures be incorporated into the FR Y-14Q, Schedule F.24 (Other Fair Value Assets). The commenter argued that this would allow firms to report SBIC interests directly within the standardized Schedule F.24 framework and eliminate the need for a recurring informal data collection. Additionally, the commenter argued that, even if SBIC interests were to be added to Schedule F.24, additional data—such as license type and fund asset debt/equity weighting—should not be included in Schedule F.24, as, the commenter argues, they would introduce unnecessary operational burden and complexity without materially improving risk assessment.

The Board considered the comment submitted and has determined not to make changes in order to capture SBIC exposures, beyond those changes previously made through separate action in May 2026. On May 20, 2026, the Board adopted a proposal that added several fields to Schedule F.24 in order to capture SBIC exposures.[251] This change will be effective for the December 31, 2026, as-of date. Additionally, in alignment with the commenter's recommendation, the Board has not included certain additional data—such as license type and fund asset debt/equity weighting—to the Schedule F.24.[252] The Board will continually monitor and analyze data to determine if the SBIC loss rate is appropriately calibrated in the supervisory stress test. If supplementary data were to be required in the future, the Board may request it from firms, including the debt-to-equity split of the fund's underlying assets.

One commenter recommended that the as-of dates for Schedule F.24 and Schedule K should align with the jump-off date of the stress test. Additionally, this commenter asserted that

[251] 91 FR 29485 (May 20, 2026).

[252] *See* Reporting Form FR Y-14Q Instructions.

Schedule F.24 should be submitted by firms as a separate instance of Schedule F to the extent that it were to have a different as-of date than the rest of Schedule F. The commenter recommended, alternatively, that the as-of dates for these schedules should remain December 31 if the Board adopts a December 31 jump-off date for the supervisory stress test.

The Board considered the comment submitted and has determined not to revise the as-of date for Schedules F.24 and K, or separate Schedule F.24 from Schedule F (Trading). As discussed in the Enhanced Transparency and Public Accountability final rule, the Board has adopted a December 31 jump-off date for the supervisory stress test, in a change from the proposal but consistent with the prior approach.[253] In alignment with the commenter's alternative recommendation, and as this jump-off date aligns with the as-of dates for the Schedules F.24 and K, no changes are being made to the reporting forms—either to adjust the as-of date for these schedules or to separate Schedule F.24 into a separate schedule.

One commenter asserted that the Board should clarify whether an original private equity exposure would need to be reported on Schedules F and K if it were to become a "securitization" for regulatory capital purposes, as the commenter stated that private equity commitments may be treated as "securitization" exposures if the original exposure were to change.

The Board has considered the comment submitted and has determined not to change the classify private equity commitments as "securitizations" if the original exposure were to change. The Board regularly assesses the performance of the supervisory stress test models and may consider revisions to regulatory reports to assess potential model changes in the future. Any future revisions would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

[253] Enhanced Transparency and Public Accountability Final Rule, Section IV.G.

At this time, the Board has considered the submitted comment and has chosen not to introduce changes to PE commitment treatment to securitizations based on exposure changes. Currently the PE Model does not segment exposures based on tranching of risk or their transfer to special purpose vehicles and thus does not require differentiation based on securitizations. The Board also does not have sufficient evidence that such qualifiable securitizations comprise a material share of the private equity portfolio across all firms. Managing reporting burden is an important aspect of administering the supervisory stress test. The Board may explore schedule changes in the future through its regular process of model development and validation.

One commenter asserted that firms often assign clients a North American Industry Classification System ("NAICS") code during onboarding and must spend significant resources to manually map NAICS codes to the Global Industry Classification Standard ("GICS") taxonomy, as well as to review and validate for any GICS or NAICS updates. This commenter recommended that the Board collapse all rows referring to GICS codes in schedules F.24 and F.25 into a single row while keeping non-industry rows (e.g., tax credits, BOLI/COLI, and stable value wraps) as needed. Alternatively, the commenter suggested that Board provide a mapping of NAICs codes to GICS codes to reduce reporting burden.

The Board has considered the submitted comment and has chosen not to collapse rows relating to GICS in Schedule F.24 and Schedule F.25. GICS codes provide valuable information related to emerging risk concentrations. Such data may serve as inputs for ongoing supervisory monitoring conducted by the Board, as well as benchmarking of the stress test models and to inform potential future model improvements. Alternative data sources are not reasonable substitutes for this data in achieving these objectives.

E. Trading Issuer Default Loss Model

As described in the 2025 Market Risk Models Documentation, the Trading Issuer Default Loss Model ("Trading IDL Model") estimates losses, which are a component of projected pre-tax net income, resulting from defaults of trading book credit positions, including bonds, loans, and credit default swaps.[254] The Trading IDL Model only applies to firms subject to the GMS, which generally includes firms with substantial trading operations.[255] The Trading IDL Model is important for accurately assessing whether firms are sufficiently capitalized to absorb trading losses resulting from issuer jump-to-default events, which occur when a given credit instrument suddenly declines in market value, precipitated by the unexpected default of the instrument's issuer or reference entity.[256] These events may occur throughout the projection horizon of the stress test and pose risks not otherwise captured by the general (non-issuer specific) credit spread widening depicted in the GMS.[257] These events may be particularly material for firms with trading portfolios that include large, concentrated exposures to individual issuers.[258]

1. Model Specification and Rationale

a. Complementarity with RWA Calculation

One commenter recommended that the Board remove issuer default risk from the stress testing framework, stating that the Trading IDL Model is not scenario sensitive and this risk is already capitalized in risk-based capital requirements.

One commenter suggested that the Board should eliminate the Trading IDL Model as part of overall capital calibration consideration across risk-based capital requirements and the stress

[254] *See* 2025 Market Risk Models Documentation, 205–206.

[255] *Id*.

[256] *See* 2025 Market Risk Models Documentation, 205–206.

[257] *Id*.

[258] *Id*.

test. The commenter stated that Trading IDL Model is not tied to the scenario and primarily targets low-probability issuer default tail events beyond the supervisory stress scenario, which the commenter asserts makes it an incremental loss on top of losses driven by the stress test scenario. The commenter also argued that keeping the Trading IDL Model is duplicative because it measures the same issuer default risk that is already captured in the risk charge within the current and the Board's recent capital framework proposals (the "2026 Capital Proposals").[259] The commenter stated that implementation of FRTB in the 2026 Basel III Proposal is expected to significantly increase RWAs across the banking industry and thus eliminating the Trading IDL Model could offset net capital increases for capital markets activities while preserving the overall resilience of the banking industry. In connection with the suggestion to remove the Trading IDL Model, the commenter recommended that the Board revise FR Y-14Q, Schedule F and suggested specific fields that could be eliminated if Trading IDL is removed.

The Board has determined to adopt the Trading IDL Model as proposed. In determining to retain the Trading IDL Model, the Board considered comments stating the Trading IDL Model should be eliminated. However, periods of economic stress are characterized by increased defaults, particularly in below-investment-grade securities, making default modeling an essential component of stress testing, as evidenced by Moody's data showing default count reached its heights during the 2008-2009 financial crisis,[260] with Trading IDL losses representing a material and significant contribution to overall trading losses under stress. The Trading IDL Model provides concentration risk capture capabilities that supplement those in the Basel Default Risk

[259] 91 FR 14952 (Mar. 27, 2026); 91 FR 14908 (Mar. 27, 2026); and 91 FR 15332 (Mar. 27, 2026).

[260] Moody's Ratings, Default Trends – Global: Annual default study: Corporate default rate to fall below its long-term average in 2025. Exhibit 22. Annual Moody's-rated global corporate issuer default counts, 1920-2024.

Charge ("DRC") framework. In particular, the Trading IDL Model utilizes granular issuer-specific information to model default risk and is able to more accurately project losses influenced by the large concentrated obligor exposures in the portfolio. It also offers a more nuanced view of the portfolio default loss and its main drivers. In accordance with the stress testing principles of focus on the ability to evaluate the impact of severe economic stress and conservatism, the concentration risk and stress-period default dynamics captured by the Trading IDL Model are essential elements of the stress test, and are enhancing and complementary to, rather than duplicative of, RWA-based capital charges, and stress testing appropriately incorporates default risk as these tail events become more probable during adverse economic conditions.

The Board also considered a comment stating that the Board should revise FR Y-14Q, Schedule F and remove specific fields if the Trading IDL Model is eliminated. Because the Board determined to retain the Trading IDL Model, the Board is also retaining the associated FR Y-14Q, Schedule F reporting requirements.

b. Issuer Population

Some commenters stated that if the Trading IDL Model is not removed from the supervisory stress test, its issuer population should be aligned with the LCPD approach and exclude all issuers that receive zero or low risk weights in regulatory capital requirements. In particular, one of the commenters suggested that sovereigns, supranational entities, and multilateral development banks that receive a zero percent risk weight and public sector entities and government sponsored entities that receive a 20 percent risk weight under the regulatory capital framework should be excluded from the Trading IDL calculation. The commenter stated that this would achieve greater comparability and coherence across regulatory frameworks.

The Board is retaining the issuer population of the Trading IDL Model as proposed. In determining to maintain the Trading IDL Model coverage as proposed, the Board considered a

comment that recommended excluding certain low-risk exposures from Trading IDL coverage based on consistency with the LCPD Model, but determined that consistency across models should not come at the expense of comprehensively capturing risks relevant to the stress test. While the commenter argued that consistency with risk-weighting frameworks supports excluding these low-risk exposures, concentrated trading positions to sovereign issuers pose material default loss risk that warrants risk capture in the stress test. Recent market events, including the Greek sovereign debt crisis, demonstrate that sovereigns perceived as low risk can experience severe market disruptions and significant losses for firms.[261] Additionally, the Trading IDL Model serves a fundamentally different purpose than LCPD, as it measures issuer default risk driven by concentrated trading exposures that can generate significant losses during market stress events, while the LCPD Model captures counterparty risk through accessing the loss from derivatives and SFT transactions due to the largest counterparty defaulting under the GMS shocks. As a result, in accordance with the stress testing principles of simplicity, conservatism and focusing on the ability to evaluate the impact of severe economic stress, the Board determined to retain the Trading IDL Model coverage as proposed.

c. IDL Portfolio Segmentation

As described in the 2025 Market Risk Models Documentation, the Trading IDL Model calculates jump-to-default loss across each of three portfolio segments: sovereign, municipal or agency, and corporate credit instruments.[262]

One commenter recommended that, if the Trading IDL Model is retained, losses should be calculated at the overall portfolio level instead of summing the losses of three individual

[261] J. Zettelmeyer, C. Trebesch, and M. Gulati, *The Greek Debt Restructuring: An Autopsy*, Econ. Policy 28 (August 2013).

[262] *See* 2025 Market Risk Models Documentation, 207.

segments (sovereign, municipal or agency, and corporate). The commenter stated that each segment is assessed in isolation and losses are then summed to arrive at a firm's total projected default loss, without incorporating any diversification benefits, which the commenter asserted could lead to an overestimation of total Trading IDL. Additionally, the commenter suggested that there should be no additional stress loss floors for segments or the overall Trading IDL component.

The Board has considered the comment submitted and has determined to finalize the Trading IDL segments as described in the 2025 Market Risk Models Documentation. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining to retain the current calculation approach, the Board considered a comment that recommended calculating Trading IDL at the overall portfolio level instead of summing losses of individual segments, but determined that calculating portfolio segment-specific losses in isolation and adding them up is more conservative and sensitive to the default risk within each segment.

While the commenter argued that portfolio-level calculation would better reflect diversification benefits and avoid overestimation of Trading IDL, the impact of this approach on capital requirements is uncertain and would require comprehensive testing and analysis to assess. The current segmented approach provides a prudent measure of concentration risk and ensures that material exposures within individual segments generate appropriate capital charge, in

accordance with stress testing principles of simplicity and conservatism. Furthermore, the commenter's recommendation to eliminate stress loss floors for segments and the overall Trading IDL component would require additional evaluation to ensure adequate risk capture across different portfolio compositions. The current methodology of applying a stressed loss floor prevents negative amounts and avoids subtracting from projected losses for a better risk capture in accordance with stress testing principle of conservatism.

d. Probability of Default ("PD") and Recovery Rate ("RR") Assumptions

As described in the 2025 Market Risk Models Documentation, the IDL Model assumes for each issuer a base PD over the stress test horizon that depends only on issuer credit rating.[263] The uniform recovery rate assumption applied to all defaults is 25 percent.[264]

One commenter stated that historical observations and studies demonstrate that the average PD for sovereigns is typically different from that for corporates within the same rating bucket. The commenter stated that incorporating this distinction, such as through incorporating Moody's sovereign cumulative default rates by rating, would lead to more accurate risk assessments. The commenter stated that this would be a conservative approach because Moody's calculations accounts for both technical defaults and selective defaults, whereas the Trading IDL Model assumes a full default of the sovereign across all outstanding obligations. The commenter also stated that the current application of a 25 percent RR in the event of sovereign default is overly conservative. The commenter stated that data indicates that less than 16 percent of all sovereign defaults have resulted in a RR below 25 percent. The commenter recommended that the Federal Reserve should consider a sovereign recovery rate that

[263] *See* 2025 Market Risk Models Documentation, 212.

[264] *See* 2025 Market Risk Models Documentation, 211.

corresponds to the historical average/median recovery rate of approximately 50 percent, which the commenter stated would be more empirically supported.

Another commenter recommended that the Board revise the Trading IDL Model to differentiate PD assumptions by corporate and sovereign issuers, which the commenter said would better align the Trading IDL Model with empirical evidence and would be more consistent with the approach taken in the GMS component of the stress test. The commenter stated that PDs for sovereign issuers are consistently lower than for corporate issuers and that applying a uniform PD overstates the default risk for highly-rated sovereign and government-related bonds. For support, the commenter presented 2024 data showing PD rates for corporate and sovereign issuers according to credit rating.

Another commenter suggested that the Board could consider different PD and RR calibration for sovereign and corporate issuers.

The Board has considered the comments submitted and has determined to adopt PDs based on issuer rating and the uniform RR of 25 percent, as described in the 2025 Market Risk Models Documentation, for the reasons discussed below.

In determining to maintain the proposed PD and RR parameters, the Board considered comments that recommended differentiating PD between sovereigns and corporates. Introducing separate parameters would add model complexity and not likely materially improve risk sensitivity for purposes of the stress test. Additionally, sovereign RR data is difficult to measure consistently across cases due to the nature of sovereign markets, which include restructurings, the extended timeframes over which recoveries occur, and the diverse economic and political circumstances that characterize sovereign defaults. In particular, RRs in sovereign defaults vary significantly based on restructuring mechanisms, and economic as well as political conditions,

making historical averages unreliable for use as for parameters for forward-looking modeling. In addition, under a stress scenario recovery rates can be below the average. Consistent with the Board's stress test principles of consistency and comparability across firms and simplicity, a unified PD framework better captures tail risk inherent in issuer defaults and that the 25 percent RR more appropriately reflects recovery outcomes in severe stress. The focus of Trading IDL appropriately mirrors severe but plausible outcomes where historical relationships may not hold. As a result, the Board determined to retain the same PD parameters across asset classes and the 25 percent RR in the Trading IDL Model as proposed.

e. Data for Projection of Corporate Issuer Defaults

One commenter recommended that, if the Trading IDL Model is retained, the Board should simplify the jump-to-default calculation for non-linear credit products by using corporate exposure data from the FR Y-14Q, Schedule F.23, and removing private equity data from this schedule. The commenter stated that certain FR Y-14Q data fields (Schedules F.21 and F.22) could be removed if Schedule F.23 is used as the data source for Trading IDL.

The Board has considered the comment submitted and has determined not to adopt the commenter's recommendation to use FR Y-14Q Schedule F.23 data for the IDL calculation for non-linear credit products in the final model.

While the commenter stated that using Schedule F.23 would simplify the Trading IDL calculation, the data quality and consistency concerns with this approach would outweigh the potential benefits of simplification.

f. Treatment of Local Currency Sovereign Exposures

In the Trading IDL Model, local currency sovereign exposures over time are estimated using an exposure projecting assumption.[265]

One commenter suggested that, for local currency sovereign exposures, the Board could use the stressed jump-to-default post FX devaluation resulting from the GMS as an input to sovereign local currency exposures for the Trading IDL Model. The commenter argued that this would reduce double counting between the Trading IDL Model and the Trading GMS stress-loss calculations.

The Board has considered the comment submitted and has determined to adopt the use of unstressed inputs in the Trading IDL Model as described in the 2025 Model Documentation.

The Trading IDL Model is designed as a scenario-independent model that measures default risk using unstressed inputs. An alternative approach that introduces scenario-dependent stressed inputs would fundamentally alter the model's design and purpose. The Trading IDL Model and GMS based P&L models serve distinct purposes and measure different risk types. The Trading IDL Model captures default losses driven by large concentrated obligors independent of stressed scenarios, while P&L models measure portfolio-level trading losses under stressed conditions. Maintaining unstressed inputs in the Trading IDL Model preserves the model's ability to capture concentration risk independently of scenario assumptions. As a result, the Board determined to retain the use of unstressed inputs for all exposures, including sovereign local currency exposures, in the Trading IDL Model, as proposed.

F. CVA Model

[265] *See* 2025 Market Risk Models Documentation, at 229–30.

As described in the 2025 Market Risk Models Documentation, the credit valuation adjustment model (CVA Model) is a component model of the supervisory stress test that estimates counterparty credit risk losses in the GMS for firms with substantial trading or custodial operations.[266] These losses are a component of trading and counterparty losses within overall stressed losses.[267] CVA is an adjustment to the mark-to-market valuation of a firm's exposures to its derivative counterparties, taking into account estimates of the probability of default and loss given default for each counterparty.[268]

1. Model Specification and Rationale

a. Scope of Counterparties

One commenter asked the Board to clarify that, for purposes of the stress test, the scope of counterparties subject to CVA excludes inter-affiliate transactions, security financing transactions, and centrally cleared transactions, including client-cleared transactions. The commenter asserted that this approach would maintain consistency in treatment across RWAs and the stress test and would include exposures only where there is CVA calculated for accounting purposes. The commenter noted that these exclusions would also reduce operational costs at firms.

The Board has considered the comment submitted and has determined to propose revisions to FR Y-14Q, Schedule L (Counterparty) instructions to clarify the scope of counterparties subject to CVA in the final model.

The Board has determined to propose revisions to the Schedule L.1-L.4 instructions to clarify that: (i) client-cleared derivatives should be reported if the firm guarantees the

[266] *See* 2025 Market Risk Models Documentation, 239.

[267] *Id.*

[268] *Id.*

performance of the client to the CCP; and (ii) inter-affiliate transactions should be reported.[269] Fair-value security financing transactions ("SFTs") should continue to be reported either in general in Schedules L.1-L.4 or separately in the Schedule L.1e2b1 Additional Offline Reserve ("AOR") bucket for fair-value SFTs, per existing instructions. Proposed revisions to the existing reporting requirements for the scope of counterparties and exposures will better ensure accurate and consistent reporting across firms while appropriately capturing all possible material sources of CVA risk in stress conditions. Additionally, because counterparty default risk can arise in stress conditions even when CVA is not required to be calculated for accounting purposes under GAAP, the stress test framework appropriately encompasses a broader set of exposures than those subject to accounting CVA. While a commenter argued that excluding these transaction types would maintain consistency with RWA treatment, align with accounting CVA calculations, and reduce operational costs at firms, the stress testing framework serves a distinct prudential purpose and should capture all material counterparty credit risk exposures that could arise under stress, regardless of accounting treatment. Upon review, the Board has determined to propose revisions to Schedule L instructions to improve their clarity and ensure consistent application of the reporting requirements across firms while maintaining appropriate risk capture in the stress testing framework.

b. Margin Period of Risk

As described in the 2025 Market Risk Models Documentation, the duration (in days) that it takes from the last exchange of collateral covering a netting set of transactions with a defaulting counterparty until that counterparty is closed out and the resulting market risk is re-

[269] *See* 2027 Models and Reporting Proposal, Section IV.A.5.c.

hedged is known as margin period of risk ("MPOR").[270] Firms are required to report stressed expected exposure profiles in Schedule L.2, used to calculate stressed CVA, assuming a 10-day MPOR.

One commenter suggested that smaller shocks, calibrated using a shorter GMS liquidity horizon, should be used to calculate CVA stress loss under the GMS to reflect a shorter MPOR for margined counterparties.

The Board has considered the comment submitted and has determined to finalize the use of the same shocks for margined and unmargined counterparties to calculate CVA under stress as described in the 2025 Market Risk Models Documentation. While margined counterparties may have a shorter MPOR, the GMS framework is designed to capture stress conditions where market liquidity deteriorates significantly and standard margin arrangements may not function as expected.[271] Using consistent liquidity horizons across counterparty types ensures an appropriately conservative, consistent and comparable measure of CVA risk under stress, in line with the Board's stress testing principles. Therefore, the Board has determined to retain the liquidity horizon calibration as proposed.

c. Sensitivity Approach

As described in the 2025 Market Risk Models Documentation, the CVA Model estimates counterparty credit risk losses using firm-provided stressed counterparty-level CVA input data. Feedback was requested on an alternative approach, which would instead use a sensitivity-based model to estimate CVA losses, and the potential reporting requirements under such an

[270] *See* 2025 Market Risk Models Documentation, 278–79.

[271] For example, Andersen, Pykhtin and Sokol (2016) argue that a standard 10-day MPOR for margin arrangements may be insufficiently conservative under realistic considerations of trade and margin cash flows in stress that account for dispute negotiations, operational delays, human errors, and legal reviews, among others. L. B. G. Andersen, M. Pykhtin, and A. Sokol, *Rethinking Margin Period of Risk* (Jan. 21, 2016).

approach.[272] Feedback was also requested on adopting CVA sensitivity reporting requirements that align the Schedule L.4 reporting with Fundamental Review of the Trading Book (FRTB) reporting.[273]

One commenter supported the continued use of firm-provided stressed counterparty-level CVA input data in the CVA Model. The commenter opposed the alternative approach, which would move to a sensitivity-based model, and argued this change would materially weaken accuracy. The commenter stated that a sensitivity model would not capture the cross-gamma component arising from the interaction between changes in counterparty credit risk and changes in market risk factors. Additionally, the commenter noted that CVA stress includes additional shocks and adjustments (e.g., stressed collateral haircuts) that would not be captured in sensitivity reports. The commenter argued that expanding Schedule L.4 would not resolve the issues with this approach and would only increase complexity and operational burden for firms.

The commenter also supported the current approach to reporting for the CVA Model. The commenter did not support aligning Schedule L.4 with FRTB reporting. According to the commenter, FRTB sensitivities differ from the business-as-usual sensitivities currently submitted in Schedule L.4 and therefore alignment would make it more difficult to derive or explain stress losses.

The Board has determined to retain its current approach to estimate counterparty credit risk losses using firm-provided counterparty-level CVA input data in the CVA Model as described in the 2025 Market Risk Models Documentation.

[272] *See* 2025 Market Risk Models Documentation, 265–66.

[273] *Id.*

The potential for loss estimation under a sensitivity-based approach, whereby firm-reported CVA sensitivities to generic market and credit risk factor shocks (e.g., the change in CVA from a one basis point increase in a credit spread index) would be used to translate the specific risk factor shocks in a GMS into losses or gains by multiplying the sensitivity by the shock and aggregating across all risk factors, was supported by Board analysis.[274] However, comments expressed concerns regarding both reduced accuracy and increased operational burden. The potential benefits of a sensitivity-based methodology—including potential alignment with FRTB frameworks—were weighed against the commenter's arguments that such an approach would materially weaken accuracy by failing to capture critical cross-gamma effects and stressed collateral adjustments and would significantly increase complexity and operational burden for firms without resolving fundamental modeling limitations. As a result, the Board has determined to continue using firm-provided counterparty-level CVA input data, at this time.

d. Stressed LGD Clarification

One commenter asked the Board to clarify which of the FR Y-14Q fields "Stressed Loss Given Default (LGD) (PD)" or "Stressed Loss Given Default (LGD) (CVA)" is used as an input in the stressed CVA equation, referencing Figure G-1 in the 2025 Market Risk Models Documentation.[275] The commenter noted that "Stressed Loss Given Default (LGD) (CVA)" is described in the Schedule L.2 instructions as "LGD used to calculate CVA in the applicable stressed scenario."

The initial 2025 Market Risk Models Documentation is accurate and "Stressed Loss Given Default (LGD) (PD)" is used to calculate stressed CVA in the CVA Model. In continuing

[274] *See* 2025 Market Risk Models Documentation, 251–52.

[275] *See* 2025 Market Risk Models Documentation, 244.

to use this field for the stressed CVA calculation, the Board has determined that it provides the appropriate market-implied LGD measure for stressed scenarios. Additionally, this approach limits reliance on a firm's internal historical experience where adjustments to LGD values under stressed conditions are not sufficiently validated. While a commenter noted that the Schedule L.2 instructions define "Stressed Loss Given Default (LGD) (CVA)" as "LGD used to calculate CVA in the applicable stressed scenario," the Board has determined that the market-implied nature of "Stressed Loss Given Default (LGD) (PD)" makes it more suitable for the projection of stressed conditions.

2. FR Y-14Q/M/A Collection

The FR Y-14 forms consist of the FR Y-14A, Q, and M reports. These reports are used as inputs in the Board's stress test models.

a. Reporting CVA Hedges

In the 2025 Market Risk Models Documentation, feedback was requested on whether the reporting location of firm CVA hedges should be moved from the FR Y-14Q, Schedule F (Trading) to the FR Y-14Q, Schedule L (Counterparty).[276] Feedback was also requested whether CVA hedges should be included in the CVA Model rather than calculated by the Board's Trading P&L Model.[277]

One commenter opposed moving the reporting location of firm CVA hedges from Schedule F (Trading) to Schedule L (Counterparty) and including them in the CVA Model. The commenter stated that, because CVA hedges are trading instruments, they are best valued in the

[276] *See* 2025 Market Risk Models Documentation, 266.

[277] *Id.*

Trading P&L Model. According to the commenter, such a move would introduce operational burden and modeling complexity.

The Board has determined to retain the reporting location of firm CVA hedges in Schedule F (Trading) and to continue to include CVA hedges in the Trading P&L Model and not the CVA Model.

Because CVA hedges are considered trading instruments they are best reported on Schedule F and valued in the Trading P&L Model. Additionally, a reporting change could introduce operational burden and modeling complexity. The current approach appropriately reflects the nature of these instruments and avoids unnecessary operational complexity. As a result, the Board has determined to retain the reporting of firm CVA hedges in Schedule F (Trading) and value them in the Trading P&L Model.

b. Limit to Top 100 Counterparties

As described in the 2025 Market Risk Models Documentation, the CVA Model determines aggregate CVA losses by first calculating CVA losses for the top ninety-five percent of counterparties, as ranked by CVA in each scenario, and multiplying by a factor to approximate the full 100 percent of CVA losses for all counterparties.[278]

One commenter stated that the Board should consider limiting the scope of counterparty reporting in Schedule L to the top 100 counterparties as it represents a sizable portion of overall CVA losses with material exposures, rather than requiring counterparties with ninety-five percent of CVA exposure.

The Board has determined to retain the current reporting requirement in Schedule L to include the top ninety-five percent of counterparties as ranked by CVA in each scenario.

[278] *See* 2025 Market Risk Models Documentation, 242.

Comprehensive counterparty data is essential for accurate CVA loss estimation as well as consistency and transparency. Limiting reporting to the top 100 counterparties would capture only a portion of total CVA. This alternative approach would rely on assumptions that the residual portfolio behaves similarly to the top 100 counterparties, particularly regarding discrepancies between unstressed and stressed CVA, which may not be accurate across the entire portfolio in stressful conditions, and efforts to estimate and mitigate any such discrepancies would increase the complexity of the model without improving the risk capture of the model. Furthermore, reliance on scaling factors to account for the remaining portfolio would introduce increased risk of under or overestimation of CVA losses. Therefore, the Board has determined to not limit the scope of counterparty reporting to the top 100 counterparties.

G. LCPD Model

As described in the 2025 Market Risk Models Documentation**,** the LCPD Model is a component model of the supervisory stress test that applies to firms with substantial trading or custodial operations and captures the loss each firm would experience if its largest counterparty were to default under the hypothetical GMS component of the supervisory severely adverse stress scenario.[279] These losses are a component of trading and counterparty losses within overall stressed losses.[280] The model's primary objective is to assess meaningful concentrations in firms' counterparty credit risk exposures and generate scenario losses to ensure that these concentrations are capitalized against.[281]

1. Model Specification and Rationale

[279] *See* 2025 Market Risk Models Documentation, 267.

[280] *Id*.

[281] *Id.*

a. LGD Assumptions and Calibration

As described in the 2025 Market Risk Models Documentation, the LCPD Model uses a 90 percent LGD assumption, which is intended to depict the recovery risk inherent in an undiversified credit exposure under severe market conditions.[282]

One commenter stated that a static LGD assumption of 90 percent did not accurately reflect that recovery rates vary by counterparty, exposure type, and collateralization. The commenter recommended that the LGD assumption be revised to adopt differentiated rates for four groups of counterparties: sovereigns, regulated financial institutions, commercial end-users, and all others. The commenter stated that this approach would improve the risk sensitivity of the LCPD Model.

One commenter stated that not all counterparties are alike and a uniform 90 percent LGD calibration significantly overstates default risk from exposures to certain governmental entities and other counterparties that present lower credit risk. The commenter asserted that differentiating LGDs by the industry of the counterparty would improve the realism of the LCPD Model and encourage firms to conduct more business with lower risk counterparties.

Two commenters suggested that the Board should recalibrate the 90 percent LGD assumption in the LCPD Model to reflect regulatory reforms following the 2008 financial crisis that reduce counterparty credit risk and enhance financial stability. One of the commenters also stated that the Board should publish a grid distinguishing counterparty types by industry or sector and use differentiated LGDs instead of a fixed 90 percent LGD.

[282] *See* 2025 Market Risk Models Documentation, 277.

The Board has considered the comments submitted and has determined to finalize the LGD assumption as described in the 2025 Market Risk Models Documentation for the reasons discussed below.

In determining to maintain the uniform 90 percent LGD assumption, the Board considered comments recommending differentiated LGD rates across counterparty types and recalibrating the 90 percent LGD to improve risk sensitivity and reflect post-crisis regulatory reforms, but determined that the uniform 90 percent LGD appropriately reflects severe but plausible market conditions.

While commenters argued that a uniform 90 percent LGD overstates default risk for certain counterparties, such as governmental entities, and that differentiating LGDs would encourage conducting business with lower risk counterparties and account for enhanced financial stability following post-crisis reforms, the Board considered that severe stress conditions can trigger broader contagion where loss rates could be elevated across different counterparty types. Historical examples demonstrate that recoveries can be substantially lower than 10 percent even for diverse counterparty categories, including sovereign defaults with prolonged litigation and minimal recovery and financial institution defaults where unsecured creditors and derivatives counterparties experienced extended recovery periods with low recovery rates.[283] Furthermore, as described in the 2025 Market Risk Models Documentation, the LCPD component is designed to ensure that firms are sufficiently capitalized to absorb the losses stemming from an unexpected default of a meaningfully concentrated exposure under stressed conditions.[284] As a result, the Board has determined to finalize the uniform 90 percent LGD assumption in the

[283] *Id*.

[284] *See* 2025 Market Risk Models Documentation, 274.

LCPD Model as proposed in accordance with the stress testing principles of conservatism and simplicity.

b. Margined Counterparties

One commenter recommended that the LCPD Model include a clear distinction between margined and unmargined counterparties. The commenter stated that the current approach overlooks the significant risk-reducing advantages derived from collecting margin and penalizes firms with stronger margining practices. The commenter suggested that margin could be accounted for by applying smaller shocks, calibrated using a shorter GMS liquidity horizon, which would effectively reflect a reduced MPOR for margined counterparties.

One commenter recommended that the LCPD Model apply reduced shocks to exposures with margined counterparties. The commenter stated that the post-crisis reforms requiring margin have substantially reduced default risk and, when defaults do occur, substantially reduced resulting losses, as parties have been exchanging margin on a daily basis as portfolio values change.

The Board has considered the comments submitted and has determined to finalize the treatment of margined and unmargined counterparties in the LCPD Model as described in the 2025 Market Risk Models Documentation for the reasons discussed below. The performance of the supervisory stress test models is regularly assessed and changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, may be considered in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining to finalize the LCPD Model's treatment of margined and unmargined counterparties as described in the 2025 Market Risk Models Documentation, the Board considered comments recommending that the LCPD Model distinguish between margined and

unmargined counterparties by applying smaller shocks to exposures with margined counterparties. However, under stressed conditions when market liquidity deteriorates significantly, firms may be unable to close out defaulted exposures in a timely manner, which would limit the risk-reducing benefit of shorter MPOR assumed in normal market conditions.[285]

Using a uniform MPOR calibration across both margined and unmargined counterparties is appropriately conservative and simple, in consideration of the Board's stress testing principles. Therefore, the Board is retaining the MPOR calibration as proposed.

c. Exclusion List

As described in the 2025 Market Risk Models Documentation, the LCPD Model excludes certain counterparties considered to have very low default likelihoods: sovereigns of high credit quality, qualified central counterparties, IHC affiliates, and certain multilateral development banks ("MDBs") and supranational entities.[286] The Board proposed to include as sovereigns of high credit quality the United States and sovereigns with a rating equivalent of "AA-" using the median of internal ratings reported by firms.[287] The Board also discussed alternative methods for determining sovereigns of high credit quality, including using the list of G7 countries, using market-based data such as CDS spreads, or using external ratings published by nationally recognized statistical rating organizations ("NRSROs").[288]

One commenter stated that the Board should revise the LCPD Model to exclude any counterparties that receive a zero percent risk weight under the U.S. Standardized Approach under the capital framework, which the commenter viewed as a transparent and objective

[285] The potential for MPOR to deteriorate under stressed conditions is also discussed in Section III.F(1)(i1.a) above.

[286] *See* 2025 Market Risk Models Documentation, 275–76.

[287] *Id.*

[288] *See* 2025 Market Risk Models Documentation, 284–86.

approach that would be consistent with the capital framework. The commenter also suggested extending the exclusion to U.S. public sector entities ("PSEs"), such as states and municipalities. The commenter stated their view that the LCPD Model exclusions are designed, in part, to ensure that firms are not disincentivized from providing credit to low-risk entities that serve a public policy function.

Another commenter recommended expanding the set of excluded counterparties from the LCPD Model, specifically suggesting pension plans and counterparties with zero percent risk weight under the capital rules. The commenter stated that such counterparties pose sufficiently small probabilities of default that their inclusion in the LCPD Model is unnecessary and distorts the true risk of a large counterparty default. The commenter recommended considering other counterparties that could be excluded from the LCPD Model, such as counterparties with firm-modeled probabilities of default that are sufficiently low or below a materiality threshold.

One commenter recommended that certain sovereign, MDBs, PSE, and government-sponsored entity ("GSE") counterparties be excluded from the LCPD Model.

Another commenter suggested that the LCPD Model should exclude sovereigns, supranational entities, and MDBs with a zero risk weight under the capital rules, as well as PSEs and GSEs that receive a 20 percent risk weight. The commenter stated that this approach would maintain consistency in capital treatment between RWAs and the stress test. Alternatively, if the Board does not adopt this risk weight criteria, the commenter suggested that the LCPD Model should exclude all sovereigns, supranational entities, MDBs, PSEs, and GSEs rated "AA-" or better under a firm's internal credit rating system. The commenter stated this approach would exclude only the highest-credit-quality counterparties, improve risk sensitivity, and achieve broadly similar outcomes across institutions.

The Board has considered the comments submitted and has determined to finalize the list of excluded counterparties in the LCPD Model as described in the 2025 Market Risk Models Documentation with one modification. Specifically, instead of using the median of firm internal credit ratings in determining if sovereigns are excluded as sovereigns of high credit quality, the Board will finalize the alternative approach of using external ratings published by NRSROs, for the reasons discussed below.[289]

In determining not to expand the list of excluded counterparties, the Board considered comments recommending exclusions for additional entities including counterparties with zero percent risk weights under the U.S. Standardized Approach, PSEs such as states and municipalities, pension plans, MDBs, GSEs, and counterparties rated "AA-" or better under firms' internal credit rating systems, but determined that current data on firms' exposures to these entities is not sufficient to assess the level of counterparty risk they represent. In addition, because risk weights under the Standardized Approach remain static through economic cycles, they would not capture deterioration in creditworthiness or evolving market conditions, such as widening credit spreads or rising debt levels which occur when stress emerges.

While commenters argued that expanding exclusions would maintain coherence between risk-weighted assets and stress test capital treatment, prevent disincentivizing credit provision to low-risk entities serving public policy functions, and better reflect the sufficiently low probabilities of default for certain counterparties, the Board has determined that historical evidence demonstrates material limitations in relying on risk weight classifications. Notably, multiple sovereigns have defaulted while holding zero or favorable OECD's Country Risk Classification (CRC) ratings, and a substantial number of sovereign entities have missing or null

[289] *See* 2026 Market Risk Models Documentation, at Section H.iii.c.

CRC ratings due to review exemptions. Furthermore, PSEs are regarded as posing greater risk under current capital regulations. As a result, the Board has determined to adopt the list of excluded counterparties in the final LCPD Model as proposed in line with the Board's stress testing principle of conservatism.

In determining not to finalize the proposed approach to determine if sovereigns are excluded based on the median of firm internal credit ratings, but to instead finalize the alternative approach based on external ratings published by NRSROs, the benefits of enhanced transparency and cross-firm consistency and the challenges that would be posed by internal ratings-based exclusions were considered. Specifically, it was recognized that reliance on firm-reported internal ratings could lead to data quality concerns and inconsistent treatment of certain counterparties. The Board has determined that using the median of the external ratings published by the three largest NRSROs would result in a uniform, transparent, and objective standard.

d. LCPD Thresholds

One commenter recommended publishing for comment the thresholds at which the LCPD component of the stress test applies to firms. The commenter noted that the criteria, including threshold, for selecting the firms subject to the LCPD are unknown and recommended publishing such criteria and the supporting rationale in the interest of objectivity and transparency.

The Board considered the commenter's request but has determined not to publish specific LCPD component thresholds for public comment at this time. As explained in the Proposal, the largest counterparty default component generally applies to all firms subject to the global market shock component, as well as firms with substantial processing and custodial operations.[290] The

[290] 90 FR 51856, 51859 (Nov. 18, 2025).

Board has determined that the existing regulatory framework, which provides criteria for identifying which firms may be subject to the LCPD component, while maintaining discretion, provides the appropriate level of transparency while preserving supervisory flexibility to include firms in scope for this component as appropriate.[291]

e. Averaging Top Counterparties

One commenter recommended that the LCPD Model use an average of the losses that would result from the default of a firm's top five largest counterparties to better improve risk capture and reduce volatility. The commenter stated that using losses solely from the default of a firm's single largest counterparty does not accurately capture risk because, the commenter asserted, all firms cannot simultaneously face default from their single largest counterparties in an industry-wide scenario.

The Board has considered the comment submitted and has determined to finalize the LCPD model methodology of using the single largest stressed loss that could result from a single counterparty defaulting, as described in the 2025 Market Risk Models Documentation.

The single largest counterparty approach appropriately captures the most significant potential loss concentration for each firm and aligns with the stress testing principle of conservatism. While the commenter argued that all firms cannot simultaneously face default from their single largest counterparties in an industry-wide scenario, the stress test is designed to assess each firm's idiosyncratic vulnerabilities under severe conditions, and that concentration risk from the single largest exposure represents the appropriate conservative measure for capturing potential tail losses, even if such events may not be perfectly aligned across all firms. Further, the selection of the single largest counterparty is a reasonable approach that balances the

[291] *See* 12 CFR 252.54(b)(2); 12 CFR 238.143(b)(2).

probability that more than one counterparty could default under stress conditions, without increasing the complexity of the model to determine which and how many counterparties would default. Adopting an average of multiple counterparties would reduce the conservatism of the model and would not account for the contagion effects and cascading failures among interconnected counterparties that are likely to occur in stressed conditions. The single largest counterparty approach appropriately captures concentrated risk exposure while avoiding arbitrary assumptions about the number and sequence of counterparty defaults during a crisis. As a result, the Board has determined to retain the single largest counterparty approach in the LCPD Model as proposed.

f. Counterparty Aggregation Principles

Currently, firms are instructed to consolidate exposures at the parent level for counterparty ranking purposes in form FR Y-14Q Schedule L.5, although data is reported at the netting set and legal entity levels. As for credit ratings, firms report them at the legal entity level and there is no requirement to report a parent credit rating, and no aggregation principle related to ratings is provided in the instructions.

One commenter suggested that the Board should revise the counterparty aggregation principles in the LCPD Model so that sovereign agencies, central banks, sovereign wealth funds, and state-sponsored entities are treated like the related sovereign and excluded from the LCPD Model. The commenter stated that this approach would align with credit risk management principles.

The Board has considered the comment submitted and has determined to finalize the counterparty aggregation principles used in the LCPD Model, but to provide more clarity on

those principles in the 2026 Market Risk Models Documentation.[292] The Board has determined that clarifying the specification of aggregation principles in the model documentation would provide firms with appropriate guidance on counterparty relationships. As explained in the 2026 Market Risk Models Documentation, any legal entity reported under a sovereign parent will be assigned the same rating as its parent regardless of the legal entity's individual rating.

g. Probability of Default

One commenter recommended that the LCPD Model take into account the probability of a counterparty's default. The commenter stated that the assumption of a 100 percent probability of default of the largest counterparty is unrealistic, especially since risk management practices at firms aim to limit the risk of default at the counterparties to which they are most exposed. The commenter recommended modifying the approach to more accurately reflect the risk posted by large counterparties. The commenter pointed to stress testing practices in the EU and UK as potential alternatives that are more realistic. The commenter suggested that the LCPD framework should be more nuanced and risk sensitive through leveraging criteria related to size, concentration of exposures, and probabilities of default.

The Board has considered the comment submitted and has determined to finalize LCPD Model's assumption of counterparty default as described in the 2025 Market Risk Models Documentation.

The approach finalized in the LCPD Model is reasonable and appropriately conservative for stress testing purposes. The assumption that the firm's largest counterparty defaults reflects a scenario-based stress framework designed to capture tail risk events, rather than an expected

[292] *See* 2026 Market Risk Models Documentation, footnote 305.

loss. Accounting for the probability of a counterparty's default would reduce the conservatism of the model while increasing the complexity of the model. This conservative and simple approach is designed to ensure that firms are sufficiently capitalized to absorb the losses stemming from an unexpected default of a meaningfully concentrated exposure under stressed conditions without increasing the complexity of the model.

h. Balance Sheet Wide Counterparty Exposures

In the 2025 Market Risk Models Documentation, feedback was requested on incorporating balance sheet-wide counterparty exposure, beyond derivatives and securities financing transactions (for example, margin lending), in the LCPD Model.[293]

One commenter did not support broadening the LCPD to incorporate balance sheet-wide counterparty exposures, stating that the LCPD is intended to capture counterparty loss due to an instantaneous market shock. The commenter recommended continuing to focus the LCPD Model on derivative and securities financing transaction portfolios and stated the LCPD Model's scope is appropriate for assessing the risks it is meant to capture.

The Board has considered the comment submitted and has determined not to incorporate balance sheet-wide counterparty exposure in the final LCPD Model.

The current LCPD Model scope of derivatives and securities financing transactions appropriately reflects the model's design and purpose. In particular, the Board has determined that the LCPD Model's focus on derivatives and securities financing transactions is consistent with its intended objective of measuring losses from sudden market movements and counterparty default.

[293] *See* 2025 Market Risk Models Documentation, 289.

i. Counterparty Risk Mitigants

As described in the 2025 Market Risk Models Documentation, the LCPD Model calculates stressed losses for a given counterparty net of any associated collateral and single-name credit default swap hedges against the counterparty.[294]

One commenter recommended that, to more accurately reflect risk mitigation, the eligibility for LCPD hedges should be broadened to include instruments like financial guarantees that are not credit default swaps but meet the requirements for "eligible credit derivatives" as defined in Regulation YY.[295]

One commenter stated that firms may purchase first-loss or other subordinated debt protection from third parties that references an on-balance sheet portfolio of loans or derivative counterparty exposures, including through credit default swaps, credit-linked notes, or other securitization transactions. The commenter stated that this purchased protection is specifically structured to limit losses on any senior tranches retained by the firm purchasing the protection. The commenter stated that the current FR Y-14Q, Schedule L and FR Y-14M do not provide firms with the ability to present data that would allow the supervisory models to capture the benefit of this tranched purchased credit protection on modeled losses for the underlying loan and derivative portfolios. The commenter recommended that the Board create a new optional schedule to capture data on (i) loan or derivative portfolios with tranched credit protection, (ii) the amount and nature of non-pro rata protection purchased, (iii) whether the firm applies securitization capital treatment, (iv) the amount of subordination, and (v) the asset class. The

[294] *See* 2025 Market Risk Models Documentation, 268.

[295] 12 CFR 252.71(*l*).

commenter asserted that this would allow the Board to more appropriately calculate stressed losses on these loan and derivative portfolios.

The Board has considered the comments submitted and has determined not to incorporate financial guarantees as hedges in the final LCPD Model or collect data on tranched credit protection referencing derivative counterparty exposures. The performance of the supervisory stress test models is regularly assessed and changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, may be considered in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

The Board has determined that, at this time, there is not sufficient evidence to determine that (i) financial guarantees and (ii) first-loss or other subordinated debt protection on derivative counterparty exposures provide the equivalent risk mitigation as the credit default swap hedges currently recognized in the LCPD Model and included in the FR Y-14Q instructions. While the commenters argued that broadening eligibility to include instruments that meet the requirements for "eligible credit derivatives" under Regulation YY would better reflect actual risk mitigation practices, the Board has determined that the LCPD Model's current limitation to credit default swaps appropriately reflects instruments with well-established risk mitigation characteristics.

H. Auxiliary Scenario Variables

As described in the 2025 Market Risk Models Documentation, the Securities Model, FVO Model and Yield Curve Model utilize nine-quarter projections of certain risk factors, referred to as Auxiliary Scenario Variables, that are supplementary to the core variables depicted in the macroeconomic scenario.[296] The Auxiliary Scenario Variables are necessary inputs for

[296] *See* 2025 Market Risk Models Documentation, 290.

option-adjusted spread ("OAS") and yield projections described in the Securities Model, the FVO Model, and the Yield Curve Model.[297] The modeling framework used to project each given Auxiliary Scenario Variable uses historical correlations with a set of core macroeconomic variables to project nine-quarter paths that are consistent with these core variables.[298] Each Auxiliary Scenario Variable is modeled with a vector-autoregression ("VAR") model.[299]

One commenter stated that greater transparency is needed for key model inputs– notably the high-yield corporate bond OAS – to enable firms to understand model behavior and outcomes. The commenter stated that the Board should release more information on the methodology applied to calculate losses in the HFS and FVO loan portfolios. The commenter asserted that the 2025 Market Risk Models Documentation suggests that the spreads applied to high-yield loans are too severe, relative to observed market evidence, or that the use of linear spread sensitivities may be overly conservative and inaccurate when considered against stress period data. The commenter encouraged the Board to release more information on the HFS and FVO models to enable complete feedback. In particular, the commenter requested the release of coefficient estimate values for the high yield corporate bond OAS variable, which the commenter stated are necessary to forecast this variable and derive non-investment-grade spreads.

A commenter suggested that the Board publish the high yield corporate bond OAS variable path and provide model coefficient estimates. The commenter stated that firms cannot replicate the Board's projections without this information and suggested the OAS variable may be overly severe.

[297] *Id.*

[298] *See* 2025 Market Risk Models Documentation, 291.

[299] *Id.*

Another commenter recommended that the Board disclose additional information about the Auxiliary Scenario Variables utilized in the FVO loan models, including the regression coefficients, which the commenter stated would enable calculation of the spread widening that is applied to each asset class modeled.

The Board has considered the comments received and is adopting, as proposed, the VAR model used to project bond spread and yield Auxiliary Scenario Variables relevant to the valuation of AFS debt securities and FVO/HFS loans as described in the 2025 Market Risk Models Documentation.[300] The Board is also providing the additional detail requested by commenters.

In determining to finalize the proposed methodology, the Board considered comments advocating for additional information on the calibration and output of this VAR model, particularly with respect to the high yield corporate bond OAS projection. The Board agrees that providing additional detail would enhance transparency and has revised the Market Risk Models documentation to include VAR model coefficient estimates and projected paths for all spread and yield Auxiliary Scenario Variables addressed by the model (*see* Auxiliary Scenario Variables Section I of the 2026 Market Risk Models Documentation).

I. FR Y-14Q Market Risk Reporting Schedules

1. Schedule F Submission Structure

The FR Y-14Q, Schedule F instructions require that data be submitted in XML format.

One commenter stated that, given the complexity of FR Y-14Q, Schedule F and the large volume of data, the Board should allow the submission of Schedule F in either XML or Excel

[300] *See* 2026 Market Risk Models Documentation, Section I for Auxiliary Scenario Variables and Section C for Yield Curve Model.

format using the prescribed forms. The commenter stated that this could reduce burden and the risk of reporting errors.

The Board has considered the comment submitted and has determined not to change the requirement that FR Y-14Q, Schedule F be submitted in XML format.

In determining to finalize the XML-only submission format, the Board considered a comment that suggested allowing either XML or Excel format submissions could reduce burden and reporting errors, but the Board determined that standardized XML formatting is essential for data integrity, automated validation, and consistent regulatory processing across all reporting institutions. Additionally, the Board recognized that XML format enables real-time error checking, reduces manual handling errors, and facilitates efficient aggregation of data, which are critical for effective supervision and systemic risk monitoring. While the commenter argued that allowing Excel format flexibility could reduce submission burden and lower the risk of reporting errors, the Board weighed these concerns against the substantial benefits of standardized data structure and found that XML's automated validation processes may reduce errors more effectively than manual Excel preparation. As a result, the Board determined to continue requiring Schedule F submissions in XML format only.

2. Schedule L

FR Y–14Q, Schedule L (Counterparty) collects data on firms' counterparty credit risk, including derivative and securities financing transaction exposures.[301]

[301] 90 FR 51856, 51934 (Nov. 18, 2025).

a. Supporting Documentation

The Board has determined to adopt revisions to the supporting documentation for Schedule L with a more limited set of questions related to information that is relevant to understanding a firm's estimated CVA and largest counterparty default losses.[302]

One commenter did not support the proposed changes to incorporate into Schedule L supporting documentation requests that had historically been made on an ad-hoc basis. The commenter asserted that the proposed changes raise concerns regarding operational burden and would not align with the Board's stated intention of reducing supporting documentation requirements. According to the commenter, formalizing these additional data elements within the Schedule L supporting documentation would expand the scope of required production activities and would create additional burden, including data sourcing across multiple systems, enhanced controls and reconciliations, and additional governance review. The commenter encouraged the Board to reconsider the scope and timing of the additions, or to provide additional implementation flexibility or lead time. The commenter recommended that, at a minimum, the Board should permit firms to provide the supporting documentation 30 days after filing Schedule L to reduce operational burden.

The Board has considered the comment submitted and has determined to adopt revisions to the Schedule L supporting documentation requirement to provide additional flexibility while maintaining the formal collection of supplemental information.

In determining to modify the supporting documentation requirements, the Board considered a comment that opposed incorporating historically ad-hoc data requests into the Schedule L supporting documentation, citing concerns about operational burden. However, the

[302] *Id.*

Board has determined that formalizing these supplemental data elements serves the critical supervisory objective of understanding the underlying details of firm trades, positions, movements, exposures, and risks as they relate to stressed losses and that are not available in existing reporting. Additionally, the proposal's intention was precisely to reduce burden by providing firms with maximum lead time through formal advance notice in the form instructions, thereby eliminating the uncertainty and compressed timelines associated with ad-hoc requests. The commenter's concerns were weighed against the supervisory benefits of the proposed approach and the Board has determined that certain data elements could be differentiated based on timing sensitivity and that simplifying or eliminating other questions could reduce complexity without compromising data quality.

b. Streamlining

One commenter stated that the Board should eliminate select items from Schedule L to streamline reporting. Items recommended for elimination by the commenter included requirements related to client-cleared derivatives exposure rankings, CVA summaries, sub-schedules related to stress testing, derivative exposure metrics, proxy mapping details, repeated counterparty metadata, and certain counterparty threshold and credit spread metrics. The commenter recommended eliminating many columns either not directly listed in the model documentation as useful for stress testing, those providing minimal supervisory value, or those burdensome to report.

The Board has considered the comment submitted and has determined to adopt Schedule L reporting requirements largely as proposed and also to propose revisions to Schedules L.1.f, L.2, and L.3 to support streamlined reporting.[303] The Board recognizes that data reported in

[303] *See* 2027 Models and Reporting Proposal, Section IV.A.5.c.

Schedule L serves multiple supervisory purposes, including stress testing loss calculations, monitoring firm positions and products, understanding how positions move under stress scenarios, identifying key drivers for losses, comparing common counterparties across firms, and conducting independent benchmark modeling using marginal probability of default estimates. Additionally, the Board determined that eliminating most of the proposed sub-schedules and data elements would not reduce burden but would instead increase the frequency of ad-hoc supervisory questions to firms to replace the loss of structured information.

While the commenter argued that certain requirements are immaterial, burdensome, not useful in stress testing, or duplicative, the Board considered each recommendation individually and has determined the following:

i. Client-cleared derivatives ranking (L.5): The Board has determined to retain this requirement as proposed. Client-cleared derivatives do generate counterparty risk for firms because firms guarantee the performance of these transactions to the central counterparty, and this exposure warrants monitoring despite margin collection.

ii. Bottom 5 percent CVA summary (L.1.f): The Board has accepted this comment and has determined to propose revisions to the instructions. Removing this schedule will not impact monitoring or loss calculations because reporting has been inconsistent across firms and the information provided is minimal.

iii. Schedules L.5.2, L.5.3, and L.5.4: The Board has determined to retain these schedules as proposed. These schedules are critical for monitoring and understanding details of derivatives and SFT products and positions, none of which are captured anywhere else in the FR Y-14A, Q, and M reports. Eliminating these schedules would necessitate increased ad-hoc data requests to firms.

iv. Selected reporting items in Schedules L.1.a and L.1.b: The "Downgrade trigger modeled?" column has already been retired per the final notice in May 2026.[304] However, the Board has determined to retain all other columns mentioned in this comment ("Total Notional," "New Notional During Quarter," "Weighted Average Maturity," and "% Gross Current Exposure with CSAs") as they are important for monitoring firm derivative exposures and removing them would diminish supervisory monitoring capabilities.

v. Mapping columns in Schedules L.3.a and L.3.b: The Board has determined to retain these columns as proposed. Schedules L.3.a and L.3.b serve as the singular source of counterparty credit risk information and are instrumental for monitoring evolving credit risk in derivative portfolios, comparing common counterparties across firms, and conducting benchmark modeling where marginal probabilities of default are independently estimated and compared to firm values.

vi. Repeated counterparty metadata columns: The Board has determined to accept this comment in part. The Board will continue to require entity-level metadata ("Counterparty Legal Entity Industry Code," "Counterparty Legal Entity Country," "Counterparty Legal Entity Internal Rating," and "Counterparty Legal Entity External Rating") to be reported in Schedules L.1.a and L.1.b and will also require some of these columns in Schedules L.2.a, L.2.b, L.3.a, and L.3.b ("Counterparty Legal Entity Internal Rating" and "Counterparty Legal Entity External Rating"). The remaining columns ("Counterparty Legal Entity Industry Code" and "Counterparty Legal Entity

[304] *See* 91 FR 29485, 29488 (May 20, 2026).

Country") will not require repetition in sub-schedules L.2.a, L.2.b, L.3.a, and L.3.b and the Board has determined to propose these streamlined reporting changes.[305]

vii. Selected items in Schedule L.5.1: The items "Threshold CP," " po BHC or IHC or SLHC," "CDS Reference Entity Type," and "5Y CDS Spread (bp)" have already been retired per the final notice in May 2026.[306]

As a result, the Board has determined to propose the following revisions to Schedule L reporting requirements: removing the bottom 5 percent CVA summary requirement from Schedule L.1.f and eliminating repetition of entity-level counterparty country and sector metadata columns in Schedules L.2.a, L.2.b, L.3.a, and L.3.b while retaining the collection of this information in Schedules L.1.a and L.1.b. The Board has determined to retain all other Schedule L requirements as proposed to maintain critical supervisory monitoring and stress testing capabilities.

J. Banking Book Hedges

As described in the 2025 Market Risk Models Documentation, the proposed structural models for PPNR would recognize accounting hedges of interest rate risk, pending adoption of related enhancements proposed for FR Y-14Q Schedule B to collect contract level information on firms interest rate risk hedges.[307] Fair value accounting hedges of interest rate risk meanwhile, are recognized by the Securities Model in its projections of OCI on AFS debt securities, primarily via a hedge-ratio based methodology.[308]

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[305] *See* 2027 Models and Reporting Proposal, Section IV.A.5.c.

[306] *See* Board, 91 FR 29485 (May 20, 2026).

[307] *See* Board, Pre-Provision Net Revenue (PPNR) Model (Oct. 2025), *https://www.federalreserve.gov/supervisionreg/files/pre-provision-net-revenue-models.pdf* ("2025 "PPNR Model Documentation"), 220–22.

[308] *See* 2025 Market Risk Models Documentation, 57–58

1. Model Scope and Granularity

In the Enhanced Transparency and Public Accountability Proposal, the Board included proposed revisions to FR Y–14Q, Schedule B.2 (Investment Securities with Designated Accounting Hedges) which would (i) add hedge instrument level data to support the valuation of interest rate risk hedges and (ii) expand hedge reporting to cover all qualified accounting hedges, not just those placed against securities.[309] The Board also proposed to implement a new FR Y–14Q, Schedule B.3 to more comprehensively map securities accounting hedge relationships. Similarly, the Board proposed to revise FR Y–14Q, Schedule F to collect economic loan hedge data from all firms, not just those with significant trading operations.

In addition, the proposed Securities Model contemplated two alternative approaches to projecting the OCI impact of portfolio layer method hedges (PLM Hedges), outside of the hedge-ratio methodology otherwise employed for non-PLM accounting hedges. In one alternative, changes in the fair value of PLM Hedges would be projected via a linear approximation using firm-provided (DV01) interest rate sensitivities.[310] In the other alternative, PLM Hedges would be revalued at each quarter of the projection horizon using a discounted cash flow method.[311]

One commenter supported the proposed expansion of the FR Y-14Q report to enable firms to provide information regarding accounting hedges and recommended that the data collection should include risk mitigating hedges that do not qualify for hedge accounting. The commenter suggested that the same instrument-level information required for accounting hedges could be applied to these positions. The commenter stated that many interest rate risk management programs rely on hedging strategies that do not qualify for hedge accounting

[309] 90 FR 51856, 51936 (Nov. 18, 2025).

[310] *See* 2025 Market Risk Models Documentation, 75.

[311] *See* 2025 Market Risk Models Documentation, 76.

treatment even though they meaningfully reduce economic risk and so this change would improve accuracy, comparability, and alignment of supervisory results with actual risk management practices. The commenter also asserted that the change would remove incentives to alter hedge accounting designations solely to optimize stress test results.

One commenter suggested permitting risk-mitigating hedges that do not meet the requirements of accounting hedges to have a beneficial effect on PPNR. The commenter recommended collecting data, in the proposed FR Y-14Q hedge fields, on non-accounting hedges to estimate the impact of such hedges on interest income and expense. The commenter stated that the criteria for qualifying for an accounting hedge are narrow, but non-accounting hedges also provide risk mitigation and reduction of volatility in interest income and expenses, although the commenter acknowledged that hedge accounting criteria provide a known basis to qualify for risk mitigation and that not all hedges may be appropriate for income and expense offset. However, the commenter suggested that data should be collected about interest rate risk hedges meeting criteria outlined in SR 10-1 with respect to appropriate governance. The commenter also suggested that this type of hedge should be permitted under the stress test. The commenter stated that omitting non-accounting but effective hedges disincentivizes good management practices. In particular, the commenter stated that it would make stressed NII depend on hedge designation rather than the substance of the hedge and would penalize firms (including many FBOs) who use economic hedging without accounting designation. The commenter stated that not relying on accounting categorization would allow a greater focus on risk management and would fix an issue of form-over-substance that would impact supervisory NII. The commenter stated that this recommendation would leverage the existing proposed model architecture and that it would improve comparability across firms by incorporating all

impacts of qualified hedging, encourage banks to use additional forms of hedges to mitigate interest rate risk, and result in a simpler and more transparent modeling approach.

One commenter suggested that the Board should recognize hedges that do not meet accounting hedge criteria but that meaningfully reduce economic risks. The commenter stated that certain hedges that firms use in managing risk at a portfolio level (e.g., interest rate risk hedges) would not qualify as accounting hedges because they do not hedge one clearly identified asset or cash flow. The commenter suggested that these hedges be incorporated into the Board's net interest income hedge calculations since they nevertheless mitigate net interest income risk. The commenter recommended that the Board collect data on these hedges on the FR Y-14Q.

As also discussed in Section B.1.a(1) above, one commenter recommended that risk mitigants and hedges be incorporated into the stress test in ways that align with their risk-reducing nature and suggested (i) using a discounted cash flow methodology for projecting interest-rate hedges and (ii) recognizing economically effective hedges that do not qualify for accounting hedge treatment.

One commenter suggested that the Board should incorporate information on terminated fair value debt hedges and cash flow hedges. The commenter stated that, without collecting the terminal present value of terminated cash flow swaps or the closed fair value hedge adjustment of debt instruments, the Board would omit a material component of net interest income related to the ongoing amortization of terminated hedge adjustments, resulting in incomplete and inaccurate projections. The commenter recommended that the Board capture the hedge adjustment and its amortization schedule for fair value debt hedges and capture the clean present value at the termination and the amortization period for cash flow swaps. The commenter suggested that the Board collect data on unamortized terminated hedge adjustments and

amortization period to implement this recommendation. The commenter also recommended that the Board revise FR Y-14Q, Schedule B.1 and Schedule B.2 to collect additional information related to hedges and collect unamortized terminated hedge adjustments alongside the remaining amortization period in either a new schedule or as a sub-section of an existing schedule.

One commenter stated that the apparent purpose of the changes to FR Y-14Q, Schedule B.2 is to capture accounting hedges for interest rate risk. The commenter stated that the Board should clarify whether it intends to collect information on all accounting hedges, including revenue and expense cash flow hedges of FX risk and net investment hedges. The commenter suggested that, if the intent is to include all qualified accounting hedges, the Board should clarify whether it intends to collect information on closed cash flow hedges. The commenter also stated that the Board should consider adding "net investment hedge" as an option for Field 15. The commenter also recommended that the Board rename FR Y-14Q, Schedule B (Securities) to reflect proposed changes that would expand reportable items beyond securities.

One commenter suggested that, in the Securities Model, interest rate hedges should be modeled using a discounted cash flow / full revaluation methodology.

One commenter recommended the Board improve the precision of the modeling of fair value and cash flow hedges by collecting additional data. The commenter stated that a data collection that focuses on modeling different types of hedge instruments would help more accurately capture firms' specific hedging strategies and incorporate the impacts from hedges in stress.

One commenter stated that all interest rate hedges, and not only portfolio layer method hedges, should be modeled using a discounted cash flow / full revaluation methodology in the Securities Model, consistent with the model used for valuing U.S. Treasuries. The commenter

argued that the Board's proposed method of calculating interest rate hedge impacts to OCI would not capture the full economic impact of the hedges. The commenter stated that the hedge ratio approach would remove security side impacts without considering the characteristics of the hedges. The commenter stated that the proposed approach ignores the tenor of the interest rate swap, which excludes impacts from tenor differences between asset and hedge. Additionally, the commenter argued that simplifying assumptions for fully hedged securities (such as setting fully hedged agency MBS market values to be constant from the jump-off point) would omit effects from OAS and other risk factors even though an interest rate hedge would not offset these impacts. The commenter also suggested that, if the Board models securities aging and runoff, runoff in swap hedges should also be reflected to better capture risks and produce a more accurate calculation. The commenter stated that the proposed changes to FR Y-14Q, Schedule B.2 would enable this discounted cash flow / full revaluation methodology.

One commenter stated that if portfolio aging is considered, then aging on all interest rate hedges should also be reflected.

The Board is finalizing, for the reasons discussed below (i) the proposed hedge ratio-based methodology for incorporating non-portfolio layer method fair value interest rate hedges into projections of OCI on AFS debt securities (with minor adaptations to reflect the aging and reinvestment assumptions adopted for all securities in the final model - *see* Equation A-39 of the 2026 Market Risk Models Documentation) and (ii) the proposed sensitivity-based treatment of PLM Hedges, where changes in the fair value of PLM Hedges are projected via a linear approximation using firm-provided (DV01) interest rate sensitivities (similarly adapted for consistency with aging of the securities portfolio - *see* Equation A-40 of the 2026 Market Risk Models Documentation) and (iii) the treatment of interest rate risk hedges articulated in the

proposed structural model of net interest income on securities and loans (*see* Section B.v.c of the 2025 PPNR Model Documentation), where interest rate risk hedges are not recognized, pending availability of requisite hedge-instrument level data. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

In determining to finalize the proposed treatment of interest rate risk hedges, with minor adjustments to reflect asset and hedge aging, the Board considered comments suggesting that aging on all interest rate hedges should be reflected, consistent with the projection of the assets being hedged. The Board also considered comments highlighting approximations associated with the hedge-ratio based methodology (applied when projecting securities OCI), and advocating for a more granular approach that would apply discounted cash flow models at the hedge instrument level, using data that would become reportable under proposed revisions to FR Y-14Q, Schedule B included in the Enhanced Transparency and Public Accountability Proposal.[312] The Board also considered comments suggesting the scope of modelled interest rate risk hedges should be expanded to cover fair value and cash flow accounting hedges of securities and loans as well as economic hedges and terminated hedges. The Board agrees that an instrument-level treatment of interest rate risk hedges, covering an expanded hedge population, could improve the projection of OCI and NII. However, such revisions would constitute a substantial departure from the proposal and require hedge position data that is not currently available. Accordingly, the Board has determined to finalize the proposed treatment of non-

[312] *See* 90 FR 51856, 51936 (Nov. 18, 2025).

PLM hedges to securities, using a simple and robust hedge ratio methodology, which is considered to reasonably approximate the OCI impact of most fair value accounting hedges of interest rate risk, supplemented by a sensitivity-based projection of PLM Hedges.

The Board is adopting proposed revisions to FR Y-14Q, Schedule B to collect contract level information on interest rate risk hedges of securities and loans, with modifications to (i) refine the scope of hedges reportable on Schedule B.2, incorporating economic hedges of banking book interest rate risk in addition to fair value and cash flow accounting hedges, while excluding non-interest rate risk hedges (ii) rename Schedule B accordingly as the "Securities and Interest Rate Hedges" schedule (iii) collect amortized cost gross of hedge related basis adjustments on Schedule B.1 along with associated hedge clean present value on Schedule B.2.

In determining to finalize the revisions to FR Y-14Q, Schedule B with the modifications noted above, the Board considered comments suggesting hedges that do not meet accounting hedge criteria, but nevertheless meaningfully reduce economic risks, should be reported and recognized, stating that excluding hedges based on accounting designation may result in inconsistent treatment across hedge portfolios and misalignment with the economic substance of firm risk management activity. The Board concluded that broadening the hedge collection beyond accounting hedges could facilitate a more consistent and comparable view of risk mitigation across covered companies and has modified the scope of hedges reportable to Schedule B.2 accordingly. The Board also considered comments suggesting collecting information that would enable basis adjustments to be removed from amortized cost reported on Schedule B.1, where applicable, arguing this would facilitate a more accurate projection of net interest income for securities with designated accounting hedges. The Board concluded that obtaining amortized cost gross of basis adjustments at the jump of point for a given stress test

would support a more accurate projection of amortized cost forward over the projection horizon and accordingly has added a field "Amortized Cost Gross of Hedge Adjustments" to Schedule B.1 as well as a "Clean Present Value" field to Schedule B.2.

Additionally, the Board considered comments advocating for an expansion of Schedule B to collect (i) information on terminated hedges to enable projection of ongoing hedge adjustment amortization that follows hedge terminations and (ii) information on accounting hedge to asset mappings for a broader population of hedged items beyond securities on Schedule B.3. The Board concluded that while additional information in support of potential changes to the treatment of hedges may be valuable to support future model enhancements, this would depart meaningfully from the Schedule B revisions proposed and should be pursued under separate proposals.

2. Amortized Cost Projection

As described in the 2025 Market Risk Models Documentation, under the proposal to incorporate aging, maturity and reinvestment within OCI projections on AFS securities, the Securities Model would project amortized cost via the straight-line method, progressing from initial amortized cost, inclusive of hedge adjustments, as reported at the stress test jump-of date for a given security to Schedule B.1, and converging linearly to face value at the securities maturity (or weighted average life for securitized products).[313] Amortized cost would be similarly projected for interest income on securities within the proposed PPNR Model, following either the straight-line or effective interest method, starting from the same jump-of amortized cost reported on Schedule B.1, inclusive of basis adjustments.[314]

[313] *See* 2025 Market Risk Models Documentation, 64–71.

[314] *See* 2025 PPNR Model Documentation, 190–204.

One commenter stated that the Board should revise the way it incorporates amortized cost in OCI in the Securities Model to improve accuracy. For any amortized cost reporting that includes life-to-date hedge adjustments, the commenter suggested that the Board should adjust the security's amortized cost by removing the hedge adjustment. The commenter said that the Board should use the swap's clean present value as a proxy for the hedge's rate impact. The commenter asserted that this approach would better reflect the economic impact of the scenario on OCI.[315] To facilitate this approach, the commenter recommended including in FR Y-14Q, Schedule B.1, a flag identifying whether amortized cost contains hedge adjustments and including in Schedule B.2 the clean present value of swap hedges.

One commenter recommended that the Board add an item to FR Y-14Q, Schedule B.2 to collect the "clean present value" of each related swap at the start of the projection horizon. The commenter stated that this would ensure that both sides of the hedge relationship are captured and provide a materially accurate representation of net amortization and net interest income for hedged securities.

One commenter disagreed with the Board's proposed approach to amortizing hedge adjustments for net interest income.[316] The commenter stated that the Board's proposed approach would only account for the hedge adjustment in amortized cost and would omit amortization of the swap's present value, resulting in in "one-sided" amortization that would materially misstate net interest income and fail to reflect the economics of hedged positions. The commenter suggested that the Board should adopt a consistent approach by either (1) amortizing

[315] The commenter also stated that this approach would be consistent with the commenter's recommended approach for the PPNR Model to remove the hedge adjustment by using swap clean present value as a proxy for hedge rate impact.

[316] *See* 2025 PPNR Model Documentation, Equations A40, A41 and A42.

the swap present value to offset the amortized cost that includes the hedge adjustment, or (2) adjusting the amortized cost for swap present value and amortizing the net amortized cost, which would eliminate the need for a separate swap amortization. To implement this recommendation, the commenter suggested that the Board expand FR Y-14Q, Schedule B.2 to capture data on swap clean present value and maturity date, while also expanding FR Y-14Q, Schedule B.1, to capture data on whether the amortized cost amount includes a hedge adjustment.

The Board is finalizing the proposed methodologies for projecting securities amortized cost within the Securities and PPNR Models, using firm reported amortized cost submitted to the current FR Y-14Q Schedule B.1 as a proxy for amortized cost gross of hedge adjustments.

In determining to maintain the proposed amortized cost projection methodology, the Board considered comments arguing that hedge adjustments should be removed when applicable and that FR Y-14Q Schedule B should be augmented to facilitate this. The Board agrees that removing hedge adjustments from the initial amortized cost would result in more accurate capture of premium or discount amortization and improved projection of securities OCI and interest income without "one-sided" amortization of hedge adjustments and is revising FR Y-14Q Schedule B to support this change, but meanwhile adopting the proposed methodology pending the availability of data necessary to remove hedge adjustments from firm reported amortized cost.

IV. Operational Risk Model

The Operational Risk Model makes operational loss projections primarily through a distributional model that uses a historical simulation to create an unconditional distribution of operational loss amounts,[317] as described in the 2025 Operational Risk Model Documentation.[318] The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

A. Model Specification and Rationale

1. Proposal to Remove the Regression Model and use only the Loss Distributional Approach (LDA) and Small Loss Component Model

As described in the 2025 Operational Risk Model Documentation, the Board proposed to discontinue using a macroeconomic regression model to project operational losses, and to instead primarily use the distributional model to produce operational loss projections.[319] The proposed modeling suite would have also included an additional component to generate projections for small loss events excluded from the distributional model.[320]

The Board received comments supporting this change in its approach to projecting operational losses. One commenter generally supported the proposed distributional model for estimating operational risk losses and outlined its practical advantages, including scenario flexibility, transparency, and broad data availability. While supporting the distributional

[317] A "distributional model" is a generic name for a class of models or a framework describing how economic values or outcomes are distributed across units of observations within a population.

[318] Board, Operational Risk Model (Oct. 2025), *https://www.federalreserve.gov/supervisionreg/files/operational-risk-model.pdf* ("2025 Operational Risk Model Documentation").

[319] 2025 Operational Risk Model Documentation, 4.

[320] 2025 Operational Risk Model Documentation, 11.

modeling approach, the commenter observed that the model would have certain limitations, because operational risk losses could be event-driven and idiosyncratic. As a result, it is unclear, in the commenter's view, if the underlying loss distribution would be reflective of realized loss together with unforeseen idiosyncratic events, which would limit the model's ability to account for business and economic shifts. Another commenter generally supported the proposed Operational Risk Model, stating that it would reflect stability, robustness, consistency, and comparability across firms. The commenter noted benefits of shifting toward a distributional approach, which would be less sensitive to assumptions about timing and impact of large loss events and therefore less volatile.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Operational Risk Model Documentation. The Board did not receive comments supporting continuing the use of the regression model, and also did not receive comments on the use of the small loss component model. As described in the 2025 Operational Risk Model Documentation, the distributional model continues to be an appropriate framework to project operational loss events that might arise from a number of different risk factors, which may coincide with a severe macroeconomic downturn.[321] Driven by its unconditional properties, the distribution model projections are informed by idiosyncratic, correlated, and systemic loss events.[322]

2. Specifications of the Distributional and Small Loss Component Models

As described in the 2025 Operational Risk Model Documentation, operational loss projections would be primarily produced by a distributional model that uses a historical

[321] 2025 Operational Risk Model Documentation, 7.

[322] 2025 Operational Risk Model Documentation, 20.

simulation to create an unconditional distribution of operational loss amounts.[323] Projections would be based on a selected tail percentile of the distribution that is informed by the frequency of historical recessions. The Board would use a Poisson distribution to model tail loss event frequency in the distributional model.[324]

One commenter supported the separate modeling of the body and tail of loss events in the distributional model, noting that the body would capture frequent, low-to-medium severity events, while the tail would represent rare, but high-impact losses. One commenter supported the Board's use of a single-parameter Poisson distribution in the tail simulation of the distributional model, stating that it would be the most balanced and reliable foundation of estimating frequency in the model. Another commenter recommended that the Board should not add features to the proposed model that would embed macroeconomic or firm-specific variables into the core distributional model for operational risk due to the commenter's view that there would be weak correlations and additional complexity. Additional comments recommending changes to the Board's Operational Risk Model are described below.

a. Aggregation of Event Impacts to One Quarter

As described in the 2025 Operational Risk Model Documentation, the model assumes that the full financial impact of a loss event in the historical data happens within a single quarter, as of the first reported accounting date. Using the first accounting date rather than another date only impacts model outputs through the value of adjusted total assets used to scale the loss amount. [325] Based on the aggregated event data, the distributional model produces unconditional simulated distributions of aggregate nine-quarter tail event losses for each firm and event type,

[323] 2025 Operational Risk Model Documentation, 6.

[324] 2025 Operational Risk Model Documentation, 22.

[325] 2025 Operational Risk Model Documentation, 33–35.

where a tail event would be defined as a loss event in the top 1 percent of the industry loss-to-assets distribution for that event type. While the historical event loss data is aggregated to one quarter, the distributional model projections assume that loss impacts of an event occur within the nine-quarter projection period, rather than all occurring within one quarter of the projection period.

Several commenters stated that the approach for large legal losses would be inconsistent with commenters' views that legal matters that cause large losses tend to unfold over more than one quarter, and that accounting impacts can occur years after the related event.[326] However, another commenter recognized that the assumption to recognize the impact of a loss event with multiple dates on a single quarter would be conservative, would reduce complexity, and would support supervisory consistency across firms. Yet, the commenter also expressed concerns that this approach could overstate near-term stress while understating longer-term exposures. The commenter recommended that the Board retain this assumption, but also implement a benchmarking overlay that tests phased multi-period recognition to validate the results. The commenter noted that eliminating the single-quarter assumption would require addressing heterogeneity in firms' data collection and accounting practices, and that introducing multiple accounting dates could be misaligned with a distributional model unless it is adapted.

Several commenters recommended changes to the allocation of projected losses within the projection period to address their concerns about delayed loss recognition being inappropriately considered in the Operational Risk Model. One commenter recommended that the Board adopt one of three alternative approaches to allocate Clients, Products, and Business

[326] One commenter cited for support their analysis of ORX global consortium data, as well as certain published research, which indicated that large legal losses tend to be realized on a significant lag, and not equally distributed.

Practices ("CPBP") losses, or at a minimum, publish a sensitivity analysis comparing the Board's even distribution to a back-loaded CPBP allocation. The three alternative approaches included: (1) allocating CPBP losses with weights that increase over the horizon, capturing the lag without needing incident-level calibration; (2) allocating a smaller share (e.g., 25 percent) of CPBP losses to earlier quarters and the rest to later quarters; or (3) using industry data (e.g., FR Y-14Q) to empirically determine the share of losses realized within and outside the stress horizon, then allocating (a) losses within the stress horizon to the projection period and (b) those outside the stress horizon to the final projected quarter. Another commenter indicated this was one of their highest priority issues related to the Operational Risk Model. Other commenters similarly recommended that the timing of legal losses be extended to later projected quarters to more accurately reflect the time scale of litigation matters and associated losses.

Another commenter suggested that the Operational Risk Model should allow operational risk losses to be realized outside of the nine-quarter stress horizon, because operational losses calculated using the proposed model would be too high relative to data the commenter presented from recent history. The commenter suggested that the Board publish comprehensive analysis of the severity calibration and alternatives considered, if the Board retains the approach described in the 2025 Operational Risk Model Documentation.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Operational Risk Model Documentation. If the Board obtains access to additional data in the future, such as comprehensive industry data on the timing of loss impacts, it may consider adjustments to the model to account for the conservatism of the loss dating assumption.

As described in the 2025 Operational Risk Model Documentation, some loss events can take several years to be fully realized, particularly those of large legal events. The assumption that the full financial impact of a historical event occurs within a single quarter, the event's first reported accounting date, is a key assumption in the 2025 Operational Loss Model, which included the macroeconomic regression model.[327] The Board proposed to discontinue the macroeconomic regression model in part because of its reliance on the aggregation assumption.[328] In assessment of alternatives in the 2025 Operational Risk Model Documentation, it was explained that the proposed approach, which did not include the regression model, was reasonable, generally robust to alternative assumptions, conservative, and practical. Some firms do not report more than one accounting date for loss events.[329] Given inconsistencies in how firms currently establish legal reserves and implement different loss reporting practices, the approach standardizes data across firms, improves interpretability, and mitigates issues with heterogenous reporting practices.[330] It promotes the Board's modeling principles of simplicity, as well as of consistency and comparability, of the Operational Risk Model, and is reasonable to adopt for projecting operational losses in the stress test.

The Board explained in the 2025 Operational Risk Model Documentation that it considered whether the losses should be realized within the nine-quarter projection window. In reviewing FR Y-14Q, Schedule E.1 data of firms that reported multiple accounting dates that align to legal reserve accrual dates, it was found that, on a loss-weighted average, most of the financial impact of a loss event occurs within a nine-quarter window if the window is not

[327] 2025 Operational Risk Model Documentation, at 33–35.

[328] 2025 Operational Risk Model Documentation, 28.

[329] 2025 Operational Risk Model Documentation, 34.

[330] *Id.*

restricted to the first nine quarters of the event's accounting history.[331] This restriction was critical to the specification of the discontinued regression model, but not to the distributional model. The distributional model assumes that tail legal loss events could be at different reserving stages and do not necessarily start their reserving during the stress period. Therefore, given this model assumption and the evidence that most of the financial impact does occur within a nine-quarter period of the entire reserving time period, the loss aggregation assumption, without adjustments to recognize any of the projected nine-quarters losses outside the projection period, is considered appropriate for the distributional model. In evaluating this change, it was also considered that the impact of the aggregation assumption is substantially less notable in the distributional model than in the discontinued regression model.

Additionally, in assessing the comments discussed above, relevant Schedule E.1 data was reviewed and a benchmarking analysis was conducted that incorporated information from a commenter. In the analysis, the largest consecutive 9-quarter losses for each firm in its history, adjusted for inflation, was calculated. To mitigate impacts of the first-date loss recognition on individual firms' maximum losses, it was assumed that only a proportion of CPBP tail losses were recognized within a nine-quarter window. A downward adjustment was applied to the severity of CPBP tail losses[332] to account for information provided by a commenter that the average time to stabilization is around 11 quarters.[333] Using this estimate, it was assumed that 9 quarters/11 quarters*100 percent = 81 percent of tail losses are realized within a 9-quarter

[331] 2025 Operational Risk Model Documentation, 33–35.

[332] Tail losses are those loss events identified by the proposed model as being in the top 1% of the loss-to-assets distribution using data in the 2025 Stress Test.

[333] Letter from the Bank Policy Institute, American Bankers Association, Financial Services Forum, Securities Industry and Financial Markets Association, International Swaps and Derivatives Association, Inc., and U.S. Chamber of Commerce, Comment Letter to the Board on the Proposal (Feb. 20, 2026), at 69.

period, and reduced each CPBP tail event loss severity by 19 percent. Across firms, the average firm's historical maximum loss was 4.5 percent greater than its projections from the finalized model, as measured by comparing the 2025 proposed model results to the adjusted historical maximum loss for each firm. This benchmarking result suggests that the proposed model with first-date-aggregated loss data, jointly with the selected percentile, which will be discussed below, does not produce overly conservative stress loss projections for the industry.[334]

Also, the conservatism of the assumption to aggregate loss impact data to the first accounting date of an event is balanced with other modeling assumptions and model changes that reduce the conservatism of the Operational Risk Model, as described below.

First, the Board has discontinued use of a regression model due to the limitation of the loss aggregation to the first accounting date, which would result in relatively more conservative results. As described in staff's memorandum to the Board accompanying the 2025 Operational Risk Model Documentation, Board staff estimated a decrease of 50 basis points in risk-weighted assets, in aggregate, for firms subject to the stress test in 2024 and 2025 from the proposed Operational Risk Model changes. These changes were among the largest reductions to estimated stress test capital ratios.[335]

Second, the assumption of equally distributed losses across nine quarters was proposed to change from a previously implemented assumption that used the projection path from the discontinued regression model. The previous path allocated substantially more losses from the

[334] The above ad-hoc loss reduction assumption was made for benchmarking purposes only, and is not considered a sound assumption to incorporate into the distributional model. To split tail loss recognition in a consistent way, data on reserving practices would need to be collected from all firms. If firms provide detailed data, each aggregated legal tail loss could be split into several losses based on the data-supported recognition over 9-quarter increments.

[335] Staff Memorandum to the Board of Governors of the Federal Reserve System, Proposals to enhance the transparency and public accountability of the Board's stress testing framework (Oct. 17, 2025), https://www.federalreserve.gov/aboutthefed/boardmeetings/stress-tests-transparency-memo-20251024.pdf (the "Board Memo").

distribution model earlier in the projection period than the adopted model, which allocates equally. Third, the selection of the 93rd percentile over higher percentiles was chosen for results stability and to strike a balance with assumptions such as the aggregation of large legal events to one date. The percentile selection is discussed in the following section.

Finally, comments to reallocate losses within the projection period to account for delays in loss recognition were also considered. However, as previously noted, projected tail loss events could be at different reserving stages rather than all experiencing their initial reserve when the stress period begins. By modeling one nine-quarter loss and allocating the projections evenly in the projection period, the model assumes that all losses for projected tail loss events occur within the nine-quarter period, rather than a single quarter. While the Board is finalizing this aspect of the Operational Risk Model as proposed, the Board will consider alternative approaches in the future given available data, empirical evidence and the principles established in the Board's Stress Test Policy Statement.

b. Selection of 93rd Percentile to Calibrate Scenario Severity

The Operational Risk Model would use the 93rd percentile from the unconditional simulated tail distributions to represent the magnitude of nine quarters of tail losses that might occur under stressed conditions, and this percentile would be used to determine the distributional model's operational loss projections under the severely adverse scenario.[336]

The Board received a mix of comments on the stress percentile selection of the tail distributional model. One commenter supported the distributional model approach with a selection of the 93rd percentile of the tail loss distribution, stating that it would be a transparent

[336] 2025 Operational Risk Model Documentation, 16.

and repeatable approach that is conservative and practical, without overstating losses relative to available evidence.

Another commenter recommended that the Board reconsider its proposed methodology and selection of the 93rd percentile. The commenter stated that the Board's methodology for selecting and applying the 93rd percentile would not sufficiently align with scenario dynamics and the loss recognition lags discussed in Section IV.A.2.a. The commenter also stated that the 93rd percentile approach was based on annual periods, implying a one-year time horizon for its use instead of a nine-quarter horizon. The commenter recommended that: (1) the Board clarify how the Board selected the 93rd percentile, (2) the Board publish a sensitivity analysis showing how projected losses vary across reasonable horizon-consistent alternatives, and (3) that the Board explain how the chosen approach would interact with loss recognition lags, especially for legal or CPBP losses. Another commenter indicated they were aligned with these statements, and recommended the Board revise the model to better reflect evidence with respect to confidence levels.

Another commenter that did not support the selection of the 93rd percentile stated that it should be revised to the 85th percentile. The commenter stated that the current approach would be too severe relative to losses observed over the last 10 years. The commenter stated that the 85th percentile would be more appropriate as it reflects the frequency of recessions within nine-quarter periods rather than annual periods.

Similarly, another commenter stated that projecting operational losses using the 93rd percentile of the aggregate loss distribution would be too conservative given the frequency of severe recessions.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Operational Risk Model Documentation.

The Board considered a comment that stated that modeling approach is calibrated to a one-year horizon, and that approach would be inconsistent with the nine-quarter horizon of the hypothetical severe scenario. As described in 2025 Operational Risk Model Documentation, the percentile value was selected to be consistent with the probability of a hypothetical severely adverse scenario starting in any given year, unconditional on any current economic environment.[337] This probability is calculated using the frequency of the start of severe recessions over the 60-year period from 1956 through 2015. Specifically, there were four years in those sixty that saw the start of a severe recession. This rate implies at most a 7 percent (7 percent = four years saw the start of a severe recession divided by 60 years of the sample) probability of a severe recession to unconditionally start in any given year, which corresponds to the 93rd percentile at a minimum. In these calculations, the probability of a severe recession is calculated, however, there is no assumption of any particular duration to the severe recession, whether one year or nine quarters.

In addition, the Operational Risk Model weights all four severe recessions in the sample as equally representative of the hypothetical severe scenario in probability estimation. However, the Board generally adopts a scenario narrative with a severity to which only the 2007-2009 financial crisis is comparable.[338] Therefore, an alternative classification of historical scenarios was considered where, over this 60-year period, this approach would imply only one historical recession comparable with severe hypothetical scenarios. This approach would imply selection

[337] 2025 Operational Risk Model Documentation, 23.

[338] 12 CFR 252, Appendix A, Table 1—Classification of U.S. Recessions.

of the 98th percentile (1-1/60). This higher percentile was not proposed due to its principle of the stability of results at a lower percentile, and to balance with other simplifying modeling assumptions, such as more conservative aggregation of legal reserves, that may otherwise increase operational loss projections in the stress test.

One commenter proposed an alternative approach to calibrating the percentile. This commenter noted that 60 years comprises 26.7 nine-quarter periods (27 periods = (60 years*4 quarters per year)/9 quarters). The commenter appeared to implicitly assume that the four historical severe recessions each lasted nine quarters. Thus, the probability of nine-quarter severe recession would be 15 percent, which implies the 85th percentile (15 percent = four recession nine-quarter periods/26.7 nine-quarter periods). These calculations are based on assumptions rather than historical data because none of the four historical recessions included in the commenter's calculations lasted nine quarters. The alternative approach suggested by this commenter appears to be equivalent to using the probability of any one quarter being in a severe recession, rather than the probability of severe recession unconditionally starting in any given year. While this alternative could be a reasonable approach to estimating the percentile of a quarterly loss distribution, it is not applicable to the nine-quarter loss distribution. The Operational Risk Model models one nine-quarter loss distribution rather than nine separate quarterly loss distributions for simplicity. This simplified assumption also avoids making ad-hoc assumptions on how the loss profile might vary over nine quarters. Additionally, assumptions on the time-varying probability of the quarterly profile of recessions, needed for any approach where the nine quarters are split into different distributions, would result in a higher percentile than recommended by the commenter, because the number of quarters of severe shocks during recessions is substantially lower than 9 quarters * 4 recessions = 36 quarters out of 240 quarters.

When considering comments that operational loss projections were too conservative, the benchmarking analysis, discussed in Section IV.A.2.a, suggests that the proposed model with first-date-aggregated losses, jointly with the selected percentile, does not produce overly conservative stress loss projections for the industry.

c. Single Nine-Quarter Projections Allocated Evenly to Nine Quarters of Projection Period Allocated Evenly to Nine Quarters of Projection Period

As described in the 2025 Operational Risk Model Documentation, the distributional model and small-loss component model would be configured to produce single nine-quarter loss projections, and then aggregate nine-quarter loss projections from these models would be allocated evenly over the stressed projection horizon.[339]

Several commenters recommended changes to the loss path across the projection period to address their concerns, including those about the aggregation assumption and 93rd percentile choice discussed in Sections IV.A.2.a and IV.A.2.b above. As discussed in Section IV.A.2.a, one commenter proposed various alternatives that changed the weighting of CPBP losses across the projection period, another commenter stated that the uniform allocation of losses was their highest priority issue, and other commenters recommended losses be extended to later projection quarters.

Additionally, a commenter recommended a two-horizon approach instead of using a single percentile applied to the whole period. This recommendation was in response to the commenter's concerns with the calibration of the 93rd percentile discussed in Section IV.A.2.b, which the commenter said was inappropriately applied to the entire projection period given that it was based on annual periods. The commenter noted that the Board could use a one-year loss

[339] 2025 Operational Risk Model Documentation, 6–7.

distribution and apply a single tail confidence level to represent the stress component of losses; or it could use a five-quarter loss distribution and apply a lower confidence level to represent business-as-usual losses; or it could map the total nine-quarter loss estimate from the sum of estimates for the two horizons.

Another commenter stated that straight-line recognition of losses ignored both the time lag of operational risk losses as well as the recovery described in the later quarters of the Board's scenario narrative. The commenter recommended that the Board revise projected losses to use the 50th percentile from Projection Quarters 1-4 and the 85th percentile from Projection Quarters 5-8. The commenter stated this would more accurately reflect the time lag of operational risk losses, which was discussed in the previous Section IV.A.2.a. Another commenter shared a similar concern that allocating a constant tail percentile across nine quarters may create inconsistencies with scenario narratives.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Operational Risk Model Documentation. If the Board has access to comprehensive industry data on the timing of loss impacts, it may consider adjustments to the model to account for the conservatism of the loss dating assumption.

Comments suggesting that losses be reallocated within the projection period to account for delays in loss recognition, or to use different percentiles within the projection period to promote consistency with the scenario narrative, were considered. These approaches assume a pattern of the loss realization that follows either macroeconomic factors or event loss emergence. However, in the application of the distributional model, it is assumed only that stressed operational losses from this model, the Operational Risk Model, coincide with the macroeconomic stress period. The unconditional aspect of the distributional approach means it

is not well suited for capturing a loss dynamic that varies over the projection period. In the distributional model, it is assumed that tail legal loss events, which coincide with the macroeconomic stress period, could be at different reserving stages rather than all emerging during the stress period. The uniform allocation of the distributional model's nine-quarter projection to individual projection quarters avoids making such ad-hoc assumptions about relationships with time-varying loss factors for simplicity and stability of results.

These comments were considered together with other input from commenters that recommended features not be added to the proposed model that would embed macroeconomic or firm-specific variables into the distributional model, as described in the comment description included in Section IV.A.2 above. It was also considered that an appropriate modeling approach to consider time-varying factors could be a regression framework, which was used in the past, but has been discontinued given its limitations described in the 2025 Operational Risk Model Documentation.[340] While the Board is finalizing this aspect of the Operational Risk Model as proposed, the Board will consider alternative approaches in the future given available empirical evidence and the principles established in the Board's Stress Test Policy Statement.

d. Consideration of Event Type Diversification Benefit

As described in the 2025 Operational Risk Model Documentation,[341] the distributional model uses the same percentile in each event type distribution to represent stressed tail losses. This assumes that each event type simultaneously experiences a severe event, rather than allowing any benefit from diversification.

[340] 2025 Operational Risk Model Documentation, 28.

[341] 2025 Operational Risk Model Documentation, 16.

One commenter stated that the Board's approach of adding losses across all event types, without diversification benefits, may overstate risk by assuming simultaneous stressed tail events. Another commenter noted this approach was a key modeling limitation.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Operational Risk Model Documentation.

To include the diversification benefit, a typical approach would be to add correlation estimations and copula-based simulations that model the joint distribution of event type losses, which would significantly increase the complexity of the model.[342] Based on an initial analysis, a meaningful improvement in risk capture is not expected if incorporating this complex change. Literature has shown notable correlations of tail losses but also significant benefits at the 99.9th percentile of an annual loss distribution when compared to the assumption of perfect dependence;[343] however, initial analysis does not suggest these benefits are impactful at the 93rd percentile of the nine-quarter distribution.

e. Event Type Segmentation of Loss Data, and No Firm Segmentation for Industry Calculations

As described in the 2025 Operational Risk Model Documentation, the model segments operational loss events by event type category and models them separately in both the distributional model and small loss component model for all firms subject to the stress test.[344]

One commenter supported the approach of segmenting losses by Basel event type. This commenter stated, however, that the degree of segmentation would not sufficiently capture the

342 *See* A. Abdymomunov and I. Ergen, *Tail Dependence and Systemic Risk in Operational Losses of the U.S. Banking Industry*, International Review of Finance 17(2) (2017), 177–204.

343 *Id*.

344 *See* 2025 Operational Risk Model Documentation, 10, 12–16, and 18–19. These event type categories are used in Equations A1, A2, A3, A4, A5, and A7.

risk profiles of firms, and suggested that the Board consider additional segmentation by business line or other characteristics. The commenter also acknowledged that use of industry-level data would support comparability and stability across firms, but expressed concern that this approach would dilute firm-specific risk profiles. This commenter encouraged the Board to publish additional analysis supporting these modeling choices. Other commenters echoed concerns on the model's ability to reflect the variability of operational losses across business lines, and encouraged model revisions that considered more nuanced approaches.

Another commenter stated that firms that concentrate their activities in credit card products and other forms of consumer credit have different operational risk profiles than other firms subject to the stress test, and that the Board should segment its Operational Risk Model further by grouping firms by primary business models or product offerings. In support of this view, the commenter compared a firm's total losses against the event type categories and total losses in those categories as described in the Operational Risk Model documentation, which highlighted differences for that firm.[345]

One commenter, while supporting the separate modeling of body and tail loss events, recommended that the Board calibrate the tail separately for firms of different sizes and complexity.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Operational Risk Model Documentation.

As described in the 2025 Operational Risk Model Documentation, an alternative model was considered that projected operational losses based on the amount and type of business activities occurring at the firms, rather than on their asset sizes. In contrast to the approach

[345] *See* 2025 Operational Risk Model Documentation, 10.

finalized here, in which operational losses are segmented by the reported event type, the alternative model would have tied different, revenue-based indicators of operational risk to different operational losses categorized by the business line as reported on Schedule E.1, Item L.[346] Analysis demonstrated that this alternative model was often more unstable than the proposed distributional model, and stress loss projections could change for unintuitive reasons, as was explained in the 2025 Operational Risk Model Documentation.[347]

Unlike business line segmentation, event type segmentation typically groups loss events of similar properties and is more closely associated with causes of losses. Specifically, high frequency and low severity losses, such as external fraud, are segmented in one group, while lower frequency and high severity losses, such as CPBP events, are in separate groups. Grouping by statistical properties and causes of losses is more suitable for the distributional approach, which relies on data having common properties like frequency to model random realizations of tail loss data. Additionally, data segmentation by event types may have more standardized segmentation across firms. Firms' internal business line segmentation is heterogenous and may not always consistently map the same activities to specific Schedule E.1, Item L business line variable values. As a result, this approach would introduce risk that firms with major operations in a given Schedule E.1 business line may be impacted by another firm that maps its large losses to that business line, even if the business activities associated with those losses would not be assigned to the Schedule E.1 business line by the first firm. This could result in larger loss projections than appropriate for a given firm or for a group of firms.

[346] *See* 2025 Operational Risk Model Documentation, 29.

[347] *See* 2025 Operational Risk Model Documentation, 31–32.

The Operational Risk Model will continue to model all firms jointly rather than in separate groups of firms by size, complexity, or firm type. As described in the 2025 Operational Risk Model Documentation, the industry-level approach is of particular importance for operational risk.[348] This approach helps to ensure stability of results and to mitigate data constraints. Firms subject to the stress test have stored and reported different lengths and quality of collected data, and some lack sufficient event data in their tail distributions to have stable severity or frequency estimates. In contrast, the use of industry severity distributions, and the industry frequency parameter, stabilizes projections and makes results less sensitive to new realized tail losses. The use of the industry severity distribution assumes that losses experienced at some firms, after scaling, could be applicable to other institutions in the future. Academic research has shown that using scaled external loss data from other firms can help quantify operational risk of a firm.[349] As described above and in the 2025 Operational Risk Model Documentation, segmenting the industry into groups, whether by tailoring categories or firm types, would weaken the model's consistency and would also introduce judgment in the choice of segmentation. Further, modeling all firms jointly, rather than creating groupings by tailoring category or firm type as some commenters recommended, better aligns with the Board's principles of robustness and stability from the Stress Test Policy Statement, as well as the principle of comparability of results and limiting reliance on past individual outcomes.[350]

Considering the purposes of the Operational Risk Model, as well as the comments received and the Board's responses above, the Board considers the specification and disclosure

[348] *See* 2025 Operational Risk Model Documentation, 8.

[349] *See* A. Abdymomunov and F. Curti, *Quantifying and Stress Testing Operational Risk with Peer Banks' Data*, Journal of Financial Services Research 57(3) (2020), 287–303.

[350] *See* 12 CFR 252, Appendix B, sections 1.5, 1.3, 1.2, and 2.4.

of the Operational Risk Model described in this Section IV.A.2 to be appropriate for the supervisory stress test, and has adopted the model as proposed.

3. Proposal to Adopt Total Assets without Significant High-Quality Liquid Assets

As described in in the 2025 Model Documentation, total assets had been used as a proxy measure for firms' exposure to operational risks.[351] Total assets was used as a scaling variable to normalize historical operational losses across firms and over time. While total assets was a suitable scaling variable for several reasons, explored alternative risk indicators were explored, which led to the proposal to start using total assets without significant high-quality liquid assets.[352]

One commenter stated that the Board's approach to using total assets as the primary scalar for operational risk estimation offers benefits such as being universally available, straightforward, and clear, but that it was limited as a proxy for operational risk, which the commenter stated was driven by business complexity, operating structures, and technology, rather than balance-sheet size. The commenter stated that excluding cash and cash equivalents would help smooth cycle-to-cycle fluctuations, but would not materiality increase risk sensitivity. This commenter recommended that the Board segment scaling separately for firms of different sizes and complexity, and that the Board pilot a weighted income/expense-based scalar as a benchmark.

Another commenter requested additional insight into sensitivity analyses performed on scaling variables in the Operational Risk Model, including any alternatives considered. The

[351] *See* 2025 Operational Risk Model Documentation, 35.

[352] *See* 2025 Operational Risk Model Documentation, at 35–36.

commenter asserted that using total assets as the primary scaling variable does not reflect differences in business models and risk profiles. This commenter supported the proposal to exclude cash and cash equivalents from total assets to reduce volatility. Another commenter echoed these comments and encouraged model revisions to more accurately reflect the variability of operational losses across business lines. Another commenter noted that the reliance on simple asset-based scaling was a key limitation.

Another commenter recommended revenue-based scaling, and noted that revenue volatility would not be a concern if using revenue during the stress test projection horizon, as revenue declines during over that time and would lead to lower operational risk projections. The commenter also suggested that the Board should consider whether the current total-asset-based approach was appropriate for foreign banking organizations, which the commenter stated were more likely to have only a few narrow business lines, and whose losses could potentially be absorbed by the parent. The commenter recommended that the Board consider an alternative revenue-based approach that considers business lines and their operational loss history, as well as business mix and other factors, which would recognize that different business lines could present different operational risk considerations.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Model Documentation.

As explained in the 2025 Model Documentation, academic literature was considered and alternative operational risk indicators were explored before selecting total assets (without significant high-quality liquid asserts) as a scaling variable to normalize historical operational losses across firms and over time.[353] In assessing the alternatives considered in the 2025 Model

[353] 2025 Operational Risk Model Documentation, 36–38.

Documentation, initial analysis was conducted to assess the volatility of these alternatives.[354] The analysis showed that, while all of the options considered demonstrated statistical correlations with operational losses, they have different levels of volatility that translate to volatility in projected losses. The selected approach had the lowest volatility of those that had the strongest conceptual soundness, particularly during the pandemic period, while total income had the highest volatility.

In considering a revenue-based scaling alternative recommended by a commenter, the Board's principle of stability aims to reduce volatility both in increases and decreases in projected losses, as appropriate. Considering operational loss data (for instance, from the 2007-2009 financial crisis), a resultant decrease in operational losses during periods of severe revenue declines would not be appropriate. As noted in the 2025 Model Documentation, and as discussed above in Section IV.A.2.c, an alternative approach that used different sources of revenue as alternatives to total assets was considered, but evaluation of that approach indicated it would increase the volatility of the model.[355] Comparative analysis using the 2024 stress test results indicate the volatility of a revenue approach, as the alternative model projected much more conservative results than the proposed model for the 2024 exercise.[356]

For the reasons described above, the proposed approach best adheres to the stress testing principle of consistency and comparability, and so has adopted this aspect of the model as proposed.

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[354] *Id.* Approaches considered were total assets, total income, total assets minus cash and cash equivalents, total assets minus significant high-quality liquid assets, and risk-weighted assets.

[355] 2025 Operational Risk Model Documentation, 29.

[356] Analysis used results from 2024 because the stress test in that year is the most recent exercise with full participation.

B. Data Sources

1. Use of Gross Amount of Loss Event, Not Net of Recoveries

One commenter suggested that, in the future, the Board should reconsider the choice to model losses on a gross basis without recoveries in the Operational Risk Model, as recoveries may mitigate the impact of losses. The commenter asserted that excluding recoveries may overstate the net impact on firms. Another commenter also noted that the exclusion of recoveries was a key limitation.

In considering these comments, the Board determined to continue using the gross loss amount, rather than net of recoveries. As explained in the 2025 Model Documentation, the Board observed a lower probability of recovery during stressful periods, and uncertainty over when recoveries will materialize.[357] The Board conducted initial analysis using FR Y-14Q data, which indicated that for all events that include recoveries, there are about 16 quarters between the first accounting date of the event and the first date with a recovery, on average, weighted by gross loss dollars. This suggests that recoveries for tail losses realized during stress are expected to materialize after the stress period. Therefore, the Operational Risk Model adopts a conservative approach of estimating losses using the gross loss amount rather than using losses net of recoveries. This approach enhances the conceptual soundness of the model and the purpose of the stress test to project stressful operational losses, and better aligns with the Board's principle of conservatism.

2. Inclusion of all Historical Loss Events

As described in the 2025 Model Documentation, the Operational Risk Model uses historical operational loss data from the FR Schedule E.1, which requires firms to report a

[357] 2025 Operational Risk Model Documentation, 11.

complete history of their operational loss events.[358] All events in firms' loss history are considered in the Operational Risk Model, subject to exclusions discussed in Section IV.D below and in the 2026 Operational Risk Model Documentation in Section A.iv.c.

One commenter recommended that the Board permit firms to request the exclusion of legacy losses and losses stemming from exited business from the operational loss distribution to ensure that projections reflect current risk profiles and to incentivize prudent risk management. Specifically, this commenter argued that (1) operational losses that cannot reoccur because they arose from a business that has been exited, resulted from conduct now prohibited by regulation, or stemmed from an acquired entity's pre-acquisition operations, should be excluded from Equation A1 – the firm-specific tail frequency parameter;[359] and (2) that operational loss events should be excluded from the industry-specific tail frequency parameter if the conduct that gave rise to such loss is now prohibited by law or regulation or if the related products and services are no longer offered by any covered institution. The commenter argued that such a request should be reviewed by an independent panel of subject-matter experts within the Federal Reserve System. As an alternative, the commenter recommended that this information could be collected through the FR Y-14Q or a one-time targeted data collection.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 Operational Risk Model Documentation.

As described in the 2025 Operational Risk Model Documentation, the distributional model is driven by the unconditional properties of the historical operational loss event

[358] 2025 Operational Risk Model Documentation, 9.

[359] 2025 Operational Risk Model Documentation, 13.

distribution, and it best accounts for large loss events that might arise from a number of different factors.[360]

Certain operational losses may not reoccur because they arose from exited businesses, acquired entities' operations, or relate to activities that are now prohibited by law. However, adopting an alternative approach that excludes these losses would be inconsistent with the Board's principles of a forward-looking approach, and a focus on the Board's ability to evaluate the impact of severe economic stress.[361] Including all losses in the distributional model is appropriate because it assumes that the severity and frequency of historical losses represent the severity and frequency of losses that could occur in different businesses in the future, even if the specific source of the loss in the future would not be tied directly to the source of a loss event that occurred in the past.

For example, operational losses related to poor mortgage underwriting standards during the 2007-2009 financial crisis have a relatively low probability of reoccurrence due to changes in law and practice. However, these losses represent the potential severity of losses that could occur in different businesses and for different reasons, in proportion to the size of the current sizes of firms subject to the stress test. Similarly, losses from discontinued businesses or acquired firms could indicate losses that could potentially occur in newly emerging or expanding businesses that have not yet experienced losses, and for which it would not be possible to fully quantify future losses. Examples of such potential losses are cybersecurity losses from novel business activities, or legal losses related to the improper use of rapidly emerging technologies. These potential losses could be severe and more frequent, but the current operational loss data

[360] 2025 Operational Risk Model Documentation, 7.

[361] 12 CFR 252, Appendix B, sections 1.2, 1.7.

does not represent them yet. The entire historical loss distribution best considers all future potential losses, including potential losses from newly emerging or expanding business or risks that have not yet experienced losses. Incorporating an independent review process to exclude historical losses would not mitigate these risks.

C. Additional Modeling Approaches Suggested by Commenters

1. Benchmark Approach

One commenter recommended considering a three-pronged benchmarking framework in the Operational Risk Model. This would include empirical loss-based analysis using FR Y-14Q data, separate modeling of large legal events, and idiosyncratic scenario overlays for top, emerging, or material risks. The commenter stated that this would enhance transparency and provide a check against model-driven projections, but it would also introduce subjectivity as each prong would require assumptions to make firm-specific results. The commenter stated that this approach would offer limited predictive power, so it should not be used as a primary forecasting tool but could be considered as a benchmark tool to complement the primary distributional model. This approach would involve separately modeling large legal events and idiosyncratic scenarios. Developing such a benchmark framework would require detailed data on legal reserves at firms that is not currently collected or otherwise available. Such a benchmark may be considered in the future. Idiosyncratic scenario overlays would be subjective as the commenter mentioned, and thus would limit comparability across exercises and firms, which would not align with the Board's principle of consistency and comparability.

2. Climate Modeling

Another commenter recommended that the Board incorporate extreme weather risk into loss projections, including for operational losses. The distributional model as published is appropriate because it includes data from losses that occurred due to a wide range of operational

failures, including natural disasters. The model assumes that the severity and frequency of historical losses, when combined in a severe outcome from an unconditional distribution, represent potential future losses that could occur for different reasons, including emerging risks that may not be fully represented in the loss history. Data from past losses that are unlikely to reoccur are retained as they could be representative of novel or emerging risks to firms.

D. Clarifications to Model Documentation

One commenter requested that the Board confirm whether severity distributions for tail losses are scaled by total assets before combining with frequency distributions in the Monte Carlo simulation. Scaled losses are used for severity in the Monte Carlo simulation. As described in the 2025 Operational Risk Model Documentation, the model randomly selects from the pool of tail loss ratios based on the expected tail event frequency.[362]

One commenter requested clarification regarding whether, for each simulation, the tail loss value is added element-wise to the expected body loss to form the aggregate loss in the Operational Risk Model. The commenter also requested an explanation regarding how the Board ensures that no double counting of losses occurs between the body and tail components during aggregation. As described in the 2025 Operational Risk Model Documentation, the expected body loss is added to each simulated tail loss to produce overall nine-quarter loss distribution for each firm/event type combination.[363] This approach is mathematically equivalent to calculating the 93rd percentile of the tail distribution for each firm/event type and adding the expected body loss. The body and tail components of the distribution do not have double counting because loss events in the two components are separated.

[362] 2025 Operational Risk Model Documentation, 13.

[363] *Id*.

One commenter requested clarification on elements related to historical data in the look-back period. The commenter requested clarification on the maximum look-back period, including the upper limit for historical data incorporated into the proposed model; clarification of the typical look-back ranges currently applied in practice (e.g., 5–10 years or full data availability); an understanding of how the selected period ensures adequate coverage of full business cycles, including periods of stress; and a description of whether certain stress periods are weighted or emphasized and, if so, the rationale and methodology supporting such an approach. As described in the 2025 Operational Risk Model Documentation, the data for the loss severity distribution include all submitted loss events according to Schedule E.1, subject to having valid historical losses for the firm as of the event's first accounting date.[364] The 2026 Operational Risk Model Documentation has been updated to clarify that the average tail frequency calculations use data starting from either 2000:Q1 or the first available date for firms that began data collection later, and that adopting shorter data for the frequency calculation mitigates data collection issues in the earliest periods. There are no weights assigned to specific periods in the loss histories. If the industry were to experience more body losses relative to new tail losses going forward, over time the 93rd percentile of the simulated tail distribution would shift to a lower loss amount.

One commenter requested that the Board clarify the exact FR Y-9C line items to be excluded from total assets. The 2026 Operational Risk Model Documentation has been updated to provide the information included in the following table:

[364] 2025 Operational Risk Model Documentation, 9.

Table D1 – FR Y-9C fields excluded from total assets in calculating $TotalAssets_{j,t=0}$

Name	Schedule and Line
Cash and balances due from DIs	HC Line 1
US Treasury securities	HC-B Line 1, HC-D Line 1
US Government agency and sponsored agency obligations (exclude MBS)	HC-B Line 2, HC-D Line 2

E. Interaction with Other Proposals

Several commenters suggested that the Board consider interactions between the Board's 2026 Capital Proposals and the proposed stress test models. Comments on the stress test models were received prior to the publication of the Board's capital proposals.

Several commenters stated that that the Board should remove duplicative risk capture between the stress test and a future capital proposal. One commenter stated the Board could eliminate operational risk loss modeling in the stress test. The commenter stated that firms subject to both the supervisory stress test and the capital proposal could be at a competitive disadvantage to international peers, and could result in migration of core banking activities to the nonbank sector. The commenter further suggested that the Board could retain these components as exploratory components of the stress test, or alternatively, the Board could allow risk weights under a finalized capital rule to apply to a post-stress exposure amount already reduced by losses incurred in the stress test.

One commenter suggested that if operational risk capital charges are applied to a broader range of firms in connection with a future Basel III proposal, any compounding effects from

operational risk being used in capital calculations and additional operational risk elements within the stress tests should be eliminated.

Another commenter stated that a key question for a future Basel III proposal would be how operational risk standards established in risk-weighted assets will be reconciled with PPNR calculations that include operational loss estimates.

One commenter observed that operational risk RWAs will likely be included in future capital requirements under a Basel III proposal, even though the stress test already includes operational risk losses, resulting in overcapitalization for these losses. The commenter stated that if operational risk will be capitalized through the SCB, GSIB surcharge, and RWA requirements under a Basel III proposal, these requirements should be calibrated in an aggregate manner that appropriately adjusts all relevant components of the framework.

The Board is mindful of potential overlaps between the capital and stress testing frameworks. The Board's supervisory stress test complements the risk-based framework by adding forward-looking granularity and risk sensitivity to ensure that firms subject to the stress test are sufficiently capitalized to absorb losses during a stress event. In contrast to the stress tests, the Board's capital proposals establish minimum capital requirements, which are designed to promote the safety and soundness of firms subject to those requirements. The stress tests aim to include losses across a broad range of risks, including operational risk, that could materialize during a stress event.[365] Firms have experienced large operational loss events, and some of them were associated with systemic stress events. The operational risk model is designed to produce severe operational losses that could coincide with a hypothetical economic shock. As noted in

[365] The inclusion of operational risk was proposed to be added to the Scenario Design Policy Statement; *see* 90 FR 51856, 51876 (Nov. 18, 2025). This revision was adopted in the Enhanced Transparency and Public Accountability Final Rule.

the Board's recent proposal to modernize the regulatory capital framework, the Board considered the combined calibration of these frameworks and determined that they would be appropriate to propose. The Board will further consider comments on the Basel III proposal, and the interaction of that proposal with this final action, in any final Basel III rulemaking.

V. Aggregation Models

The Board proposed to use the Aggregation Models (comprised of the Balances Model, Retained Earnings Model, Provisions Model, and Capital Model) to calculate a firm's pre-tax net income. That pre-tax net income is then adjusted for other elements such as taxes and regulatory capital deductions, to determine the projection of a firm's regulatory capital, which is then used to calculate a firm's projected capital ratios.[366] The Board received a number of comments on the proposed Aggregation Models. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

A. Balances Model

As described in the 2025 Model Documentation, the Board proposed a Balances Model, that would use a balance sheet line-item projections calculator to aggregate a comprehensive set of balance sheet and risk-weighted asset items from firms' regulatory reports to serve as inputs to the Board's supervisory stress testing models.[367] The Balances Model facilitates the Board's assumption that a firm's projected balance sheet is held constant throughout the projection horizon, in order to implement the credit supply maintenance policy in the Stress Testing Policy Statement.[368]

One commenter argued that the flat balance sheet assumption is overly simplified and leads to higher borrowing costs and reduced credit availability for consumers, particularly underserved consumers with subprime credit scores. The commenter recommended two alternative approaches, the first of which suggested that the Board could calibrate a fixed growth rate based on aggregate, industry-level loan losses, where the Board would still assume that the

[366] *See* 90 FR 51856, 51860–51862 (Nov. 18, 2025).

[367] 2025 Aggregation Models Documentation, at 5–6.

[368] 12 CFR 252, Appendix B, section 2.7.

aggregate loan balances held by covered firms would remain constant over the planning horizon, while the mix of loan types would fluctuate based on loan-specific charge off rates. The second approach offered by the commenter would calibrate product-specific growth rates based on recent origination data.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Model Documentation for the reasons discussed below.

Consistent with the Stress Testing Policy Statement and as proposed, Board models, including the Balances Model, will continue to assume a balance sheet of consistent magnitude and a general assumption that risk-weighted assets remain unchanged over the planning horizon, as described in detail in the 2025 Aggregation Models Documentation.[369] The Board considered a comment suggesting that the Board instead calibrate a fixed growth rate based on aggregate, industry-level loan losses, or based on recent origination data. While the Board recognizes that a firm's balance sheet may change in different ways in periods of stress, a constant balance sheet assumption simplifies the Board's stress testing framework and strengthens consistency and comparability, while dissuading firms from planning to reduce credit supply in a stress scenario. In addition, by precluding the need to make assumptions about how underwriting standards might tighten or loosen during times of economic stress, the Board follows the principles of consistency and comparability, promoting uniformity across covered companies.[370]

[369] 2025 Aggregation Models Documentation, 5–6.

[370] *See* 12 CFR 252, Appendix B, sections 1.3, 2.7.

Considering the purposes of the Balances Model, as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications to be appropriate for the supervisory stress test, and has adopted the model as proposed.

B. Provisions Model

As described in the 2025 Model Documentation, the Board proposed to use an algebraic formula (the "Provisions Model") whose components are intended to reasonably reflect the calculation of allowances for credit losses under a hypothetical stress scenario.[371] The output of the Provisions Model is intended to ensure that projected allowances for credit losses are sufficient to capture realized and expected losses in each firm's loan, lease and securities portfolios during each quarter of the projection horizon. The 2025 Aggregation Models Documentation described the specifications of the Provisions Model, while also discussing and asking questions regarding several alternatives considered, including options for incorporating Current Expected Credit Loss ("CECL") into the Provisions Model and adjusting the Board's smoothing approach for allowance adjustments and credits.

Two commenters did not recommend incorporating CECL in the Provisions Model, as in their view the costs, such as potential volatility and additional complexity and inconsistency, would outweigh the benefits. However, this commenter asserted that the current Provisions Model has some limitations, including that it only considers losses over a four-quarter horizon and therefore could result in the model not incorporating increases in expected credit risk beyond that period. The commenter further noted that certain aspects of CECL's approach to capturing emerging risk and recognizing credit risk losses earlier would be conceptually consistent with the goals of stress testing.

[371] 2025 Aggregation Models Documentation, at 11–13.

Another commenter recommended that the Board update the multiplier values used to scale the allowance for credit losses, set at 1.15 in the proposal, for portfolios that project losses using a net charge-off approach (as opposed to an expected loss approach), which the commenter stated is overly conservative, especially later in the projection horizon.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Model Documentation for the reasons discussed below.

Consistent with the recommendation of public commenters, the Board is not implementing CECL into the supervisory stress testing framework and will finalize the model specifications as described in the 2025 Aggregation Models Documentation. The allowance calculation framework currently used in the supervisory stress test is already forward-looking: it projects loan loss provisions four quarters ahead. This approach aligns with the Board's modeling principle of simplicity as it requires fewer assumptions than would be required to determine provisions under CECL.[372] In addition, in aggregate, the cumulative loan loss provisions under the supervisory severely adverse scenario are similar to provision projections submitted by the firms that have adopted CECL, which demonstrates that this approach aligns with the Board's modeling principle of conservatism.

The Board will retain the multiplier values used to scale the Allowance for Credit Losses as proposed for portfolios that project losses using a net charge-off approach. The multiplier is necessary to account for the later realization of losses using a net charge-off approach compared to an expected loss approach. While it is plausible that this multiplier value could lead to overly conservative treatment of balances to which it applies, especially in the later quarters of the

[372] 12 CFR 252, Appendix B, section 1.4.

projection period, as net charge-off recognition catches up to defaults, this would be mitigated by the fact that the multiplier will be calibrated based on credit card accounts, which have shorter loss emergence periods than other loan categories.

Considering the purposes of the Provisions Model, as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Provisions Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

C. Retained Earnings Model

As described in the 2025 Model Documentation, the Board proposed to use an algebraic formula (the "Retained Earnings Model") to calculate retained earnings[373] in the supervisory stress test by combining projections of pre-tax net income, taxes, and capital distributions.[374] The Retained Earnings Model's components are intended to reflect a firm's financial position, given supervisory projections of revenues, expenses, losses, and provisions, in a hypothetical stress scenario. The 2025 Aggregation Models Documentation described the specifications of the Retained Earnings Model, while also discussing and asking questions regarding several alternatives considered, including alternative options for calibrating the valuation allowance for deferred tax assets ("DTAs") from timing.

Several commenters recommended that the Board remove the calculation of a valuation allowance related to deferred tax assets arising from temporary differences ("timing DTA valuation allowance") from its models. These commenters argued that the four-quarter look-ahead does not account for the fact that, in general, firms continue as going concerns during the

[373] Retained earnings represent the undistributed profits which a firm could use to absorb losses and serve as a key component of projected common equity tier 1 capital in the stress test.

[374] 2025 Aggregation Models Documentation, 26.

stress test and that the current calculation is not aligned with accounting guidance or how the firms would practically calculate valuation allowances under stress. These commenters asserted that eliminating the timing DTA valuation allowance would enhance simplicity and comparability, while avoiding complicated calibration decisions. One commenter asserted that the Board's valuation allowance calculation effectively nullifies the capital rule's 10 percent of common equity tier one limitation, and argued that firms maintain higher capital amounts based on stressed calculations.

Some commenters provided several alternative approaches for calibrating the valuation allowance, although they recommended removal of the valuation allowance calculation in general. One commenter suggested using taxable income over the full projection horizon to calibrate the valuation allowance. Another commenter suggested bifurcating timing DTAs into those which are linked to core businesses and long dated and those which are not, and subjecting only the latter to a valuation allowance calculation.

The Board has considered the comments submitted and has determined to revise the model specifications described in the 2025 Model Documentation for the reasons described below. The Board is revising the Retained Earnings Model to assess the valuation allowance for DTAs from timing based on a combined eight quarter look-back and four quarter look-forward period of taxable income, rather than solely a four-quarter look-forward period. The revised model specifications are described in detail in the 2026 Aggregation Models Documentation.[375]

The Board will continue to project timing DTA valuation allowance within its stress test models. In reaching this view, the Board determined that this approach is appropriate for the stress test, and considered that ongoing assessments of the timing DTA valuation allowance are

[375] 2026 Aggregation Models Documentation, Section C.iii.f.

required by both U.S. GAAP accounting standards[376] and by U.S. regulatory capital rules.[377] However, as mentioned above, the Board is revising the Retained Earnings Model to assess the valuation allowance for DTAs from timing based on a combined eight quarter look-back and four quarter look-forward period of taxable income, rather than solely a four-quarter look-forward period, as was proposed. This approach better aligns with existing accounting guidance[378] on assessing a timing DTA valuation allowance using information from recent years, while also retaining alignment with the Board's stress test principles by not solely relying on past outcomes and including a forward-looking element in assessing the usability of DTAs.[379] This approach will continue to capture the potential impact that lower earnings under stress may have on the timing DTA valuation allowance in a simple, consistent, and comparable manner across firms, consistent with the Board's stress test principles.

The Board considered an alternative suggested by commenters that would have used taxable income over the full projection horizon to calibrate the valuation allowance. The Board's revised approach to assessing the valuation allowance based on a combined eight quarter look-back and four quarter look-forward period of taxable income is more closely aligned with existing accounting guidance than this alternative. The Board also considered an alternative that would have differentiated between timing DTAs into those which are linked to core businesses

[376] *See* ASC 740-10-30-16.

[377] *See* 12 CFR 217.22(d)(1)(ii) ("The Board-regulated institution must deduct from common equity tier 1 capital elements the amount of [timing DTAs] that the Board-regulated institution could not realize through net operating loss carrybacks, net of any related valuation allowances and net of [deferred tax liabilities]. . .") and 12 CFR 217.22(d)(2)(i)(A) ("[timing DTAs] that the advanced approaches Board-regulated institution could not realize through net operating loss carrybacks, net of any related valuation allowances and net of [deferred tax liabilities].").

[378] *See* ASC 740-10-30-21 (stating, "Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years"). *See also* KPMG, *Accounting for income taxes: Handbook* (Oct. 2025), 4.025; PwC, *Income taxes guide* (Jul. 29, 2026), 5.2.4.1; Deloitte, "5.3 Sources of Taxable Income," *Roadmap: Income Taxes* (2026); EY, *Income taxes* (Oct. 2025), 6.1.1.1, all of which interpret the "recent years" mentioned in ASC 740-10-30-21 to mean in practice the current year and prior two years.

[379] 12 CFR 252, Appendix B, section 1.2.

and long-dated, and those which are not. However, this alternative would increase reporting burdens and complexity to the Retained Earnings model.

Considering the purposes of the Retained Earnings Model, as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Retained Earnings Model to be appropriate for the supervisory stress test, and has adopted the model as revised.

D. **Capital Model**

As described in the 2025 Model Documentation, the Board proposed to use a calculation of a firm's projected common equity tier 1 capital ratio for purposes of the stress capital buffer requirement (the "Capital Model"), in accordance with the Board's regulatory capital rule using Board projections of pre-tax net income and other scenario-dependent regulatory capital components.[380]

One commenter recommended that the Board change the way it would model embedded goodwill in the Private Equity Model. The commenter asserted that the proposed approach could overstate the associated capital deduction amount. Instead, the commenter recommended an approach in which private equity losses are fully allocated to embedded goodwill until the goodwill balance has been fully impaired. This commenter suggested that the Board revise FR Y-14Q, Schedule F.24 (Private Equity), to collect data necessary to effectuate this modeling change. Another commenter recommended that the Board introduce consistent RLSA reporting standards across firms, including by providing guidance on where RLSAs payments should be reported and the associated accounting treatment, as firms reflect RLSAs payments in varying ways within their regulatory reports.

[380] 2025 Aggregation Models Documentation, 45.

Additionally, one commenter recommended the Board clarify in its model documentation that the impact of netting DTAs arising from temporary differences with related valuation allowances is reflected in the firm's risk-weighted assets ("RWA") projections.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the 2025 Model Documentation for the reasons discussed below.

In assessing the Board's proposed model and the comments received, the Board considered that accounting standards do not prescriptively require private equity losses to be fully allocated to embedded goodwill until the goodwill balance has been fully impaired. The Board will retain its private equity model as proposed, including with the proposed exclusion of embedded goodwill from private equity carry values used as the basis for loss projections. The proposed exclusion is a simple approach to preventing the model from punitively assigning losses against balances not included in capital,[381] and does not add methodological complexity by incorporating an assumption that private equity losses are fully allocated to embedded goodwill until the goodwill balance has been fully impaired. Since the Board is not adopting the model changes suggested by commenters, the Board is not revising Schedule F.24 to separately capture the embedded goodwill and carrying value for each investment that has embedded goodwill.

Regarding recommendations that the Board clarify the impact of netting DTAs arising from temporary differences, the 2025 Aggregation Model Documentation published together with the proposal is intended to fully describe the Capital Model's RWA treatment of common equity tier 1 threshold deduction items, which include "DTAs arising from temporary differences

[381] 2025 Market Risk Models Documentation, 170.

that could not be realized through NOL carrybacks, net of related valuation allowance and net of DTLs," and describes this item as not held constant over the projection horizon but rather reflecting the path of supervisory projections.[382]

Comments regarding the treatment of RLSAs are discussed in Section II.E above.

Considering the purposes of the Capital Model, as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the Capital Model to be appropriate for the supervisory stress test, and has adopted the model as proposed.

[382] 2025 Aggregation Models Documentation, 61, 64, and 66.

VI. Pre-Provision Net Revenue Model

The Pre-Provision Net Revenue ("PPNR") Model ("PPNR Model") is used to project income from banking services, activities, and products, excluding loan loss provisions, by using a suite of 23 models to estimate net interest income, noninterest income, and noninterest expense, as described in the 2025 PPNR Model Documentation.[383] In October 2025, the Board disclosed the models it used to project PPNR in the 2025 stress test ("2025 PPNR Model") and proposed a new suite of PPNR models for the 2026 stress test ("2026 Proposed PPNR Model"). The 2025 PPNR Model consisted of panel regression and autoregressive models that relate specific revenue and expense components to firm characteristics and macroeconomic variables; structural models that relate granular data on individual positions to macroeconomic variables and simple calculator approaches; and simple nonparametric models that rely on recent firm-level performance.

The 2026 Proposed PPNR Model aims to better capture firms' business practices by using granular position data to model net interest income and bank projections to model noninterest income and expense. For net interest components, the Board's 2026 Proposed PPNR Model would generally consist of structural models that relate granular data on maturities and interest rate characteristics of assets and liabilities to project future revenues or expenses; for certain net interest components for which granular data are not available, the 2026 Proposed PPNR Model would use structural models in the form of calculators or simple panel regressions that relate interest income earned on assets and liabilities to a reference interest rate. For noninterest income and noninterest expense, the 2026 Proposed PPNR Model would use

[383] 2025 PPNR Model Documentation.

discount factor models and an efficiency ratio model, respectively, based on firm projections under the supervisory severely adverse scenario reported on the FR Y-14A reporting form.

The Board received a number of comments on the documentation for the 2026 Proposed PPNR Model documentation. The following subsections describe the comments received on the 2026 Proposed PPNR Model in general; for each component and sub-component, the Board responds to comments and describes any action taken.

A. Proposed Transition to a New PPNR Model Suite

1. General

As discussed above, in the 2025 Model Documentation, the Board disclosed the 2025 PPNR Model it used in the 2025 supervisory stress test and invited public input on the 2026 Proposed PPNR Model for the 2026 supervisory stress test.[384] The 2026 Proposed PPNR Model would estimate interest income and interest expense, other than interest expense on other borrowing, through structural models; net interest income on trading assets and liabilities and interest expense on other borrowing through regression models; noninterest income through discount factor models; and noninterest expense through an efficiency ratio model.[385] While the 2025 PPNR Model subcomponent models are based on historical data and demonstrated good forecasting performance across time, the 2026 Proposed PPNR Model aimed to better reflect firm and business line performance using granular position data for net interest income and firm projections to model noninterest income and expense.[386]

Commenters were generally supportive of the transition from the Board's 2025 PPNR Model to the 2026 Proposed PPNR Model. One commenter stated that the 2025 PPNR Model is

[384] 2025 PPNR Model Documentation.

[385] *Id*.

[386] 2025 PPNR Model Documentation, 6.

too simplistic and does not capture key features of the PPNR drivers of different firms. Specifically, this commenter stated that the 2025 PPNR Model was not appropriate for projecting firm-specific income in the stress test because the regression models use FR Y-9C data that does not capture specific business models or risk profiles across firms with sufficient granularity. The commenter supported the use of an entirely new modeling approach for PPNR compared to the 2025 PPNR Model.

While commenters generally supported the use of new models to project PPNR, some criticized elements of the 2026 Proposed PPNR Model. One commenter expressed concern regarding the 2026 Proposed PPNR Model's granularity, its ability to accurately capture macroeconomic sensitivity, and the appropriateness of data calibration for reflecting current and future business dynamics under stress.

Commenters generally supported the 2026 Proposed PPNR Model's use of structural models for a subset of interest income and expense components and requested adjustments only to certain components of the models. One commenter supported the Board's proposal to use structural models for interest income and interest expense in the stress test, stating that the structural approach is generally more detailed and better able to capture key sources of heterogeneity in business mix and profile. Another commenter recommended that the Board adopt the proposed structural models for interest income and interest expense forecasting, as they are more conceptually sound and consistent with firms' internal forecasting. However, these commenters recommended changes to certain components of the 2026 Proposed PPNR Model structural models, stressing the importance of granularity to reflect relevant features of firms' business lines and portfolios. By contrast, commenters generally expressed concern about the discount factor and efficiency ratio models proposed for noninterest income and noninterest

expense. Commenters also opposed the 2026 Proposed PPNR Model interest income model, recommending modifications to the proposed approach for noninterest income as an interim solution and the redevelopment and proposal of a new model as a long-term solution.

Following a review of comments, the Board has determined to decommission the 2025 PPNR Model and adopt the 2026 Final Proposed PPNR Model. This transition addresses the shortcomings of the 2025 PPNR Model discussed in the 2025 PPNR Model Documentation and better capture firms' performance relative to the framework previously employed.

As detailed in the sections below, the 2026 Final PPNR Model incorporates adjustments that are intended to address concerns raised by commenters and better align with the Board's Stress Testing Policy Statement by improving conceptual soundness, maintaining consistency across the stress test models, and enhancing the accuracy of PPNR projections.[387] One of the key recommendations made by a wide range of commenters was to incorporate further granularity into the PPNR models. The commenters' proposed approach would include additional granularity at the firm level (e.g., firm segmentation or firm-specific treatment) and at the product or business level (e.g., breaking down the income and expense components). The Board considered these comments and incorporated them into the 2026 Final PPNR Model suite where appropriate. In determining final action, the Board considered various factors, including but not limited to alignment with the Board's Stress Testing Policy Statement, the availability of data, the degree of firm heterogeneity, and the nature of business lines and products. Special attention has also been paid to balancing detail, simplicity, and stability within the models. These considerations will be described in more detail in the sections below.

[387] 12 CFR 252, Appendix B, sections 2.1 and 1.3.

The Board is also proposing revisions to data reporting in the FR Y-14Q in order to facilitate future potential enhancements of the PPNR Model. The Board seeks comments on the new alternative model proposed separately, as well as the FR Y-14Q revisions described in the 2027 Models and Reporting Proposal, available on the Board's website at https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2027.htm.

2. FR Y-14 Schedule G.2 and G.3

One commenter stated that the Board must clarify certain points of FR Y-14Q, Schedule G.2 and Schedule G.3, add data items to improve accuracy, and further streamline these schedules. Furthermore, the commenter recommended that the Board revise FR Y-14Q, Schedule G.2, item 34A (Noninterest-bearing Demand) to require firms to report the total noninterest-bearing domestic deposit amount for all accounts and not just for demand deposits. The commenter noted that the amounts reported in Schedule G.2, items 34B–34E are used to determine the average domestic deposit repricing beta, which are reported in Schedule G.3, items 79–82 for each account type. The commenter asserted that the co-mingled interest-bearing and noninterest-bearing deposit amounts, which are currently reported in items 34B–34E, impact and potentially provide less meaningful deposit repricing beta, reported on FR Y-14Q, Schedule G.3 items 79–82. The commenter stated the co-mingled amounts in line items 34B–34E yield less meaningful repricing betas and do not reflect the true sensitivity of firms' interest-bearing domestic deposits. To remove the impact of noninterest-bearing amounts from the betas, the commenter recommended that the instructions for item 34A be changed so that noninterest bearing domestic deposits for all types of accounts are reported on this line and not restricted to noninterest-bearing demand deposits.

The Board has considered the above comments and has determined not to adopt the commenter's recommendations. The instructions state that firms must classify deposits in the appropriate subcategory according to internal definitions.[388] Allowing firms to reclassify deposits according to whether they are currently paying interest would introduce volatility into the data series. For example, if interest rates are low, firms may not pay interest on savings accounts and reallocate those balances from items 34C to 34A under this approach. However, if rates increase, those balances may be reclassified into item 34C, obfuscating the ability to understand these line items for purposes of the PPNR model and the supervisory stress test generally.

Additionally, as stated in the instructions, the beta should reflect the weighted average beta in response to an assumed 100 basis points movement.[389] The fact that a balance of deposits that are not paying interest at the current moment, but are classified in items 34B–34E, affect the estimate of the beta, is by design. For example, suppose half of savings deposits are currently not paying interest. A downward rate movement may increase that fraction resulting in a lower beta estimate relative to its current estimate. An upward rate movement may decrease that fraction resulting in a higher beta estimate relative to its current level. This is reflective of the actual state of the firm's balance sheet. If firms were to exclude these deposits from beta calculations, baseline beta estimates would increase and their relative change in response to rate movements would be more difficult to disentangle.

[388] *See* Reporting Form FR Y-14Q Instructions, G.2—PPNR Net Interest Income (NII) Worksheet, Average Liability Balances section. The document states: "For the classification of domestic and foreign deposit liabilities, BHCs and IHCs should report based on internal definitions (those deemed to best represent the behavior characteristics of deposits). For all other liabilities, BHC, IHC and SLHC should reference FR Y-9C and other definitions provided in the PPNR Net interest Income worksheet when completing this section." The instructions for line item 34A, Noninterest-bearing Demand, direct firms to "[r]eport balances using internal definitions."

[389] Reporting Form FR Y-14Q Instructions, Average Domestic Deposit Repricing Beta; Average Foreign Deposit Repricing Beta.

One commenter recommended that the Board revise FR Y-14Q, Schedule G.2, item 47 (Other Interest-bearing Liabilities) be divided into two items: one for the instruments matching the CUSIP reported on the proposed FR Y-14Q, Schedule B.4 and one for all other instruments.

One commenter recommended that the Board amend the FR Y-14Q, Schedule G.2 instructions to align with the FR Y-9C. The commenter noted that firms report average quarterly data on available for sale ("AFS") and held to maturity ("HTM") investment securities at market value within items 10 through 12 and are also required to report these metrics at amortized cost in FR Y-9C, Schedule HC-K. To reduce firm burden, the commenter stated that the Board should align the reporting of these fields with the FR Y-9C, Schedule HC-K, and require that items 10 through 12 be reported at amortized cost. Additionally, the commenter recommended that the Board revise the FR Y-14Q, Schedule G.2 instructions to explicitly provide columns for items 10 and 12 that would correspond to the FR Y-9C, Schedule HC-B, as currently done for item 11.

The Board has considered the above comments and determined not to adopt the commenters' recommendations. After analyzing the trade-off between increased reporting complexity, additional burden on reporting firms and expected benefits, the Board decided it will not implement the proposed FR Y-14Q, Schedule B.4 with CUSIP data. The Board has also determined not to propose revisions to the FR Y-14Q, Schedule G.2.

One commenter stated that the Board should institute a higher cut-off than five percent for items that do not need to be reported as memo items for other interest-bearing assets and liabilities.

The Board considered the above recommendation and has determined to retain the five percent threshold for items that do not need to be reported as memo items for other interest-

bearing assets and liabilities. In the Board's view, the current cut-off appropriately balances the burden of reporting against the need to collect information on firm's other interest-bearing assets and liabilities. The Board regularly assesses the performance of the supervisory stress test models and may consider revisions to regulatory reports in the future.

B. Proposed Structural Models

1. Interest Income on Loans

As described in the 2025 PPNR Model Documentation, the Board's 2026 Proposed PPNR Model would project interest income on loans using a structural model based on granular data from the FR Y-14M and FR Y-14Q regulatory reports.[390] This approach would allow the Board to derive changes in interest income in the projected scenario directly from loan characteristics (i.e., the type of interest rate variability).[391] The 2026 Proposed PPNR Model uses portfolio segments to reflect the interest income characteristics of new originations.[392] For each segment, an average jump-off interest rate weighted by outstanding balance is used as the starting point for projecting the segment-level interest rate. This segment-level weighted average captures differences in interest income across banks and portfolios. Differences in loan characteristics within a segment, such as risk profile, appear as differences in the weighted average.[393] In addition, the Board made clarifications related to the composition of "Other Retail Loans" in the 2026 PPNR Model Documentation.

[390] 2025 PPNR Model Documentation, 173.

[391] *Id.*

[392] 2025 PPNR Model Documentation, 174–75.

[393] *Id*.

a. Base Rate Assumption

As discussed above, the 2026 Proposed PPNR Model would project interest income on loans using a structural model based on granular FR Y-14M and FR Y-14Q data.[394] The proposed interest income on loans model segments its projections to reflect interest income characteristics. The primary determinant of the segmentation scheme is interest rate sensitivity, and each retail or wholesale portfolio is segmented into fixed-rate and variable-rate exposures to enable the Board to address the impact of interest rate changes on each type of exposure during the projection period.[395] The base rate determines the magnitude of interest rate change in the scenario. The Board proposed to use the Prime Rate as the base rate for retail variable-rate products; the mortgage rate for adjustable-rate mortgage (ARM) products; and the three-month Treasury yield for wholesale products.[396]

One commenter suggested that the Board should not use the Prime Rate as the base rate for retail loan interest income. The commenter stated that the Board should more accurately reflect the actual base rate used to price and generate interest for retail loan products, which is linked to the tenor of the loan. This commenter also suggested that the Board should not use the 3-month Treasury rate as the uniform base rate for wholesale loans, as doing so would introduce a skew towards the short end of the yield curve that would be inconsistent with the pricing dynamics of longer-maturity wholesale loans.

Additionally, one commenter suggested that the Board evaluate alternative base rates for loan projections that may better reflect market practices, such as the secured overnight financing rate ("SOFR") for wholesale floating-rate loans, 5- or 10-year Treasury rates for fixed-rate

[394] 2025 PPNR Model Documentation, 173.

[395] 2025 PPNR Model Documentation, 174–75.

[396] 2025 PPNR Model Documentation, 181.

mortgages, and 6-month SOFR for ARMs. Another commenter argued that the assumptions for net interest income for new loan originations should incorporate match-funded pricing. According to the commenter, the Prime Rate and 3-month Treasury rate are not effective benchmarks for loan originations as they do not reflect the match-funded pricing models used across the industry. The commenter stated that match-funded pricing refinements would ensure that the Board's projected net interest income more accurately reflects economic reality and margin management during stress.

After reviewing comments and considering conceptual soundness and empirical evidence, the Board has determined to finalize the base rate assumptions described in the 2026 Proposed PPNR Model with one modification, as discussed below. Given the different implications of the base rate assumptions for variable- and fixed-rate products, each case is considered separately below.

For variable-rate products, the Board has determined to retain the base rate assumptions as proposed.[397] The proposed base rate assumptions are consistent with industry practice and are a reasonable proxy for the variable rates applied to these products. For credit card portfolios, the Prime Rate is widely used as a contractual base rate for the annual percentage rate ("APR"). While other retail products and wholesale products may use short-term interest rates with different interest rate conventions (e.g., daily compounded SOFR in arrears), the Prime Rate and the three-month Treasury rate reasonably approximate the dynamics of short-term interest rates as generally applied to variable-rate products. For mortgages, the Board is clarifying that the 2026 Final PPNR Model assumes that ARM interest rates stay fixed during the projection horizon and applies the 30-year mortgage rate as the base rate. This is a simplifying assumption

[397] 2025 PPNR Model Documentation, 181.

consistent with the observation that the aggregate weighted average remaining lifetime ARM fixed period is longer than nine quarters. This approach aligns with the Board's stress test modeling principles of simplicity and transparency.[398]

For fixed-rate retail products, the Board has determined to retain the base rate assumption as proposed.[399] The final model applies the Prime Rate as the base rate for fixed-rate retail products, except for mortgages. Fixed-rate retail portfolios include wide varieties of product types. For each firm and product type, interest rate pricing behavior may be affected by various factors such as business strategy, funding profile, and operating expenses. Further, granular interest rate data is not available for some retail portfolios. Given the diverse product types in this fixed-rate retail product segment and the lack of information on pricing behavior, uniformly applying the Prime Rate as the base rate is a reasonable approximation that tracks market-wide interest rate levels. For fixed-rate mortgages, the model uses the 30-year mortgage rate as the base rate, which reflects the tenor characteristics of the product.[400]

For the fixed-rate wholesale portfolio, the 2026 Final PPNR Model adopts the 10-year Treasury base rate instead of a 3-month Treasury base rate. In the 2026 Final PPNR Model, the interest rates of newly originated corporate and CRE portfolios are equal to the sum of the 10-year Treasury rate and a spread. The choice of the 10-year Treasury rate is informed by the Board's analysis using the data available in FR Y-14Q, Schedule H. Both tenor distribution and historical data more strongly statistically support the use of the 10-year Treasury rate, since average tenor is closer to the 10-year than to the 3-month horizon. The modified base rate

[398] 12 CFR 252, Appendix B, section 1, 1.4.

[399] 2025 PPNR Model Documentation, 185.

[400] Since most mortgages have a 30-year tenor, the Board chose to directly use the 30-year mortgage rate as the base rate since it provides the best approximation for the 30-year tenor.

assumption more accurately reflects the tenor of interest rates applied to wholesale loan portfolios.

Additionally, the final model applies a single base rate to each segment described above rather than tenor-matching base rates at the portfolio level. Generally, interest-rate pricing for fixed-rate loan products may differ across firms and products according to various factors other than tenor. The assumption of a single base rate for each segment enables the Board to project interest income from newly originated loans consistently across firms without introducing further complexity into the model.

b. Constant Spread Assumption for New Loans

The 2026 Proposed PPNR Model defines the spread as the difference between the balance-weighted average interest rate and the base rate, which varies by firm, product, and segment.[401] Given that the stress test assumes constant balances, and because the interest rate spread will not be updated during the projection horizon, the Board proposed to replace variable rate facilities that default, mature, or run-off with those of the same loan type.[402] The proposed interest income on loans model would apply the Prime Rate as the base rate and assume a constant spread by product, segment, and firm in projecting variable-rate and new origination rates for retail products except mortgages.[403] This assumption would simplify the model and minimize variance across firms and products.

Two commenters disagreed with the Board's approach to determining the loan spread for new loans assumed to be originated under the flat balance sheet assumption. One commenter argued that it is inconsistent for the Board to assume that loan spreads are fixed for new loans

[401] 2025 PPNR Model Documentation, 181.

[402] 2025 PPNR Model Documentation, 181–82.

[403] 2025 PPNR Model Documentation, 181, 185.

while credit spreads increase significantly in the severely adverse scenario; the other argued that the proposed assumptions are overly simplistic, overly conservative, or internally inconsistent, leading to unreliable forecasts, and noted that industry generally increases origination spreads when market risk premiums rise during stress. Both commenters suggested that this approach would underestimate loan income and suggested that the Board instead use a risk-adjusted spread. One commenter argued that the Board should use a spread that is consistent with other risk spreads in the severely adverse scenario and used elsewhere in the stress test (such as for interest expense in the Corporate Model) and suggested that corporate loan spreads could be empirically linked to BBB loan spreads for each rating category.

The Board has considered the comments submitted and has determined to retain the model specification as proposed. While in some cases loan spreads can increase during periods of macroeconomic stress, the assumption of a constant spread is consistent with supervisory stress testing objectives. As stated in the Stress Testing Policy Statement, the aim of supervisory stress testing is to assess whether firms are sufficiently capitalized to absorb losses during periods of economic stress, while also continuing to lend to households and businesses.[404] The assumption that a firms maintain a flat balance sheet allows supervisors to evaluate the health of the banking sector without creating a "credit crunch" and substantially increasing the severity and duration of an economic downturn. In line with this principle, newly originated loans are generally assumed to have the same risk characteristics as those in the existing portfolio. The constant loan spread assumption follows from these policy assumptions. Specifically, the constant spread assumption precludes firms from increasing spreads for creditworthy borrowers due to intermediation frictions that might arise in a downturn. The

[404] 12 CFR 252, Appendix B, section 2.7.

Board considers the constant spread assumption to be appropriate for the purpose of projecting interest income on loans and consistent with the goal of the supervisory stress test to ensure the maintenance of credit supply, thereby supporting the objective of the stress test.[405]

c. Spread Estimation of Wholesale Portfolio

As described above, the 2026 Proposed PPNR Model defines the spread as the difference between the balance-weighted average interest rate and the base rate, which varies by firm, product, and segment.[406] For fixed-rate products, including wholesale products, the Board proposed to use balance-weighted origination rates at jump-off, and assumed that rates remain unchanged throughout the stress test projection horizon except if they terminate.[407] The wholesale spread is calculated using this balance-weighted average rate and a base rate from the median origination date (t-a) for that portfolio.[408] The Board chose to use the median origination date to account for the fact that fixed interest rates were set at different points in the past, depending on the instrument. Two fixed-rate loans with the same risk profile but originated in different interest rate environments will likely not share the same interest rate. In contrast to an alternative approach, using the base rate at the jump-off point would likely result in a biased calculation of the interest rate spread. While using only new originations would minimize this bias, because all fixed-rate loans would be set in the same interest-rate environment, this approach would limit the number of loans used in the calculation and assume similar risk profiles for loans originating at the jump-off and in the previous quarter. The Board proposed to use the median origination date to better account for changing risk profiles.

[405] The flat balance sheet assumption is also discussed in Sections V.A, VI.D.1.k, and VI.E.

[406] 2025 PPNR Model Documentation, 181.

[407] 2025 PPNR Model Documentation, 182.

[408] *Id*.

Two commenters suggested that the Board should not use the median origination date to calculate the base rate in the spread for wholesale loans. One commenter stated that this would be problematic due to a potential mismatch between the date of the loan and the date for the base rate. The commenter suggested that the Board instead use loan-level tenor matched base rates for the spread calculation. Alternatively, the commenter suggested that the Board should use balance-weighted origination dates, as opposed to median origination dates, for fixed-rate loans. Another commenter recommended using a balance-weighted base rate at origination rather than base rate based on the median origination date to improve consistency in the interest rate calculation.

In response to comments, the Board changed the spread estimation methodology for wholesale products to calculate the base rate using the weighted average origination date instead of the median origination date. Under the 2026 Proposed PPNR Model, the spread for the newly originated portion of a wholesale fixed-rate portfolio would have been estimated by taking the difference between two interest rates: the average rate of all loans at the jump-off quarter and the base rate from the median origination date. Under the 2026 Final PPNR Model, the spread estimation uses a base rate from the balance-weighted origination date. This modification would enable more accurate estimation of the spread, as an origination date based on a balance-weighted average would better represent the portfolio given that fixed interest rates were set at various points in the past. This approach is also consistent with the jump-off interest rate, which is also calculated from a weighted average. The 2026 Final PPNR Model uses the weighted average origination date instead of loan-level tenor matched base rates as it better aligns with the stress test modeling principles of simplicity and transparency.

d. Unfunded Commitments

The Board's proposed estimation of net interest income for the wholesale portfolio does not increase draws from revolvers throughout the projection.[409] This differs from credit loss models, which assume an increase in draws by estimating exposure at default. The Board chose this specification because it found that the expected change in interest income from increases in draws from revolvers during stress is minimal: increases in draws from healthy firms function as short-lived, precautionary liquidity insurance that firms pay down quickly, while draws by firms that fail do not generally result in material interest income.[410]

One commenter suggested that the Board revise the calculation for net interest income to assume a draw rate and duration for unfunded commitments that would generate interest income. For support, the commenter presented data demonstrating increased credit line utilization rates for non-financial corporations during the 2007–2009 financial crisis and the COVID-19 pandemic period. The commenter also argued that ignoring incremental draws in periods of stress diverges from a foundational objective of the stress test, which is to ensure that banks retain sufficient capital to withstand severe stress while continuing to lend. The commenter noted that the Board's models for held-for-investment ("HFI") lending considered stressed draws in loss projections and argued that the Board should develop a similar approach for interest income projections so that the interest income model would more accurately reflect revenues under stress.

After reviewing the comment, the Board has determined to retain this aspect of the model as proposed.[411] The loan balance measure used in the final model is based on the portfolio

[409] 2025 PPNR Model Documentation, 186.

[410] *Id*.

[411] *Id*.

balance data obtained from the FR Y-14 and does not assume incremental drawdowns of unfunded commitments. The Board considers this specification to be appropriate, as modeling additional drawdowns for interest income would be inconsistent with the flat balance sheet assumption in the stress test. Additionally, the Board notes that the flat balance sheet assumption addresses the credit maintenance consideration noted in the comment.

As noted by a commenter and described in the proposed model documentation for PPNR, the treatment of unfunded commitments in the interest income model is different from the treatment of unfunded commitments in the credit loss models. In the credit loss models, the Board assumes the additional drawdown of unfunded commitments by obligors for the purpose of projecting exposure at default ("EAD").[412] Importantly, the EAD assumptions are intended to capture the risk of additional drawdown by obligors that are projected to default, from which interest income is not expected to be generated. The Board considers these two sets of models to be consistent with each other given the different roles these models serve in the stress test. The credit loss models seek to forecast defaults and losses, and thus they consider additional drawdowns that are likely to end in default during stressed economic conditions. By contrast, because the interest income model seeks to forecast income, this model does not consider additional drawdowns, as they are likely to end in default and therefore fail to generate interest income during stressed economic conditions.

e. Fixed-Rate Consumer Credit Card Portfolio

The 2026 Proposed PPNR Model estimates interest income on loans using a structural model based on loan balance and the interest rate across firms, products, and segments.[413] The

[412] 2025 Credit Loss Model Documentation, 157.

[413] 2025 PPNR Model Documentation, 173.

Board proposed to calculate interest rates based on the scenario, loan information, and estimated loss rates from the retail and wholesale models. For the credit card interest income on loans model, the Board proposed to assume that all credit card balances have variable rates.[414] The Board chose this specification because it found that most credit cards had variable rates and approximately 10 percent had short-term fixed rates, which change in the scenario.[415]

One commenter stated that the Board should consider calibrating the consumer credit card interest income on loans model's variable-versus-fixed rate assumption on a firm-specific basis to align with individual pricing constructs and risk profiles. The commenter stated that the Board could leverage FR Y-14M data to derive accurate firm-level variable-versus-fixed pricing assumptions.

The Board has considered the comment submitted and has determined to retain the model specification as proposed.[416] The Board's analysis, based on FR Y-14M data, demonstrates variation in the interest rate behavior of fixed-rate credit card balances across firms. Specifically, some firms had relatively stable income rates while others had substantial time-variation in income rates that were classified as fixed-rate, which is inconsistent with the behavior of traditional fixed-rate products. As a result, firm-reported fixed-rate classifications were found not to be consistent across firms and do not provide a sufficiently comparable basis for differentiated supervisory modeling treatment. The Board thus retains the assumption that all credit card portfolios are variable-rate to project interest income across firms with different reporting and fixed interest rate practices consistently and comparably. The Board will continue monitoring FR Y-14M data and may revisit this assumption in the future if data demonstrate

[414] 2025 PPNR Model Documentation, 178.

[415] *Id*.

[416] *Id*.

consistent fixed-rate behavior across firms with substantial balances of products reported as fixed-rate.

f. Revenue and Loss Sharing Agreements (RLSAs)

The 2025 PPNR Model and the Proposed PPNR Model do not include any special treatment for Revenue and Loss Sharing Agreements (RLSAs), which are partnership agreements firms enter into with private entities to share portions of profits, revenues, and/or losses generated by specified assets. Payments related to RLSA agreements, if reported for PPNR subcomponents, would enter the 2025 PPNR Model and the Proposed PPNR Model through historical input data.

The 2025 PPNR Model estimated the ratio of interest income on loans normalized by the balance of total loans with a regression model that used as inputs U.S. Treasury rates, characteristics of each firm's loan portfolio, and the average level of the component ratio for each firm.[417] The 2026 Proposed PPNR Model, by contrast, would estimate interest income on loans using a structural model based on granular data from the FR Y-14M and FR Y-14Q regulatory reports.[418] The Board proposed to address data limitations in its estimation of interest income on loans in the 2026 Proposed PPNR Model by "truing up" firm-reported interest income from each loan category using a multiplicative industry scalar drawn from aggregated information from other reporting forms.[419]

One commenter provided comments regarding the Board's treatment of RLSAs and proposals for the reporting and modeling of RLSA payments. These comments are described and addressed above in Section II.E.4.

[417] 2025 PPNR Model Documentation, 42.

[418] 2025 PPNR Model Documentation, 172.

[419] 2025 PPNR Model Documentation, 184.

g. ARM Interest Rate

In the 2026 Proposed PPNR Model, the Board proposed to estimate interest income on mortgage loans using as inputs balance-weighted average loan rates, calculated by segment (HFI versus FVO or HFS; and fixed-rate versus adjustable-rate), based on FR Y-14M loan-level data.[420]

One commenter suggested that the Board should not treat hybrid mortgages as adjustable-rate mortgages ("ARMs") when projecting interest income. The commenter noted that, while it is common practice to classify hybrid mortgages as ARMs, this classification would underestimate interest income on these loans in the Board's interest income model. Because ARMs reprice quarterly, treating hybrid loans as ARMs would generally result in reduced interest income in the stress test because interest rates generally decline in the Board's severely adverse scenario, while most hybrid loans have fixed interest rates for periods longer than the stress test projection horizon. The commenter suggested that the Board use FR Y-14M data to determine which loans would reprice during the projection horizon and only treat these loans as ARMs for purposes of the stress test.

Another commenter stated that treating ARMs as variable-rate loans throughout their lifecycle, although straightforward, would overstate interest rate sensitivity during the fixed-rate phase and misrepresent near-term income stability, and may disadvantage firms with large ARM portfolios in their fixed periods. The commenter recommended a hybrid treatment of hybrid loans that uses fixed rates for short-term projections and incorporates reset risk over longer horizons.

[420] 2025 PPNR Model Documentation, 177.

In response to the comments, the Board is clarifying that the 2025 PPNR Model and 2026 Proposed PPNR Model treat hybrid mortgages as fixed-rate mortgages. This model choice reflects the observation that the aggregate weighted-average remaining fixed period generally extends beyond the nine-quarter stress horizon. The Board is also clarifying that ARM interest rates are assumed to stay fixed throughout the projection horizon. This is a simplifying assumption consistent with the observation that the aggregate weighted average remaining lifetime of ARM fixed period is longer than nine quarters. The Board clarified the treatment of mortgage interest rates in the 2026 PPNR Model Documentation.[421]

h. Industry-Wide Scalar

As discussed above, the 2026 Proposed PPNR Model would estimate interest income on loans using a structural model based on granular data from the FR Y-14M and FR Y-14Q regulatory reports.[422] The Board proposed to address data limitations in its estimation of interest income on loans in the 2026 Proposed PPNR Model by "truing up" firm-reported interest income from each loan category using a multiplicative industry scalar drawn from aggregated information from other reporting forms.[423]

One commenter stated that applying an industry-wide scalar for the other interest income component of the interest income on loans model would insufficiently account for firm-specific characteristics and revenue streams in the credit card industry.

The Board has considered the comment submitted and has determined to retain the industry-wide scalar as proposed. Under the 2026 Final PPNR Model, the scalar is calibrated at the industry-by-product-group level and is intended to account for systematic differences

[421] *See* 2026 PPNR Model Documentation, Section A.ii.a.(b).

[422] 2025 PPNR Model Documentation, 172.

[423] 2025 PPNR Model Documentation, 184.

between modeled outputs and reported accounting income, including effects related to amortization, fee timing, hedging, and other portfolio-level reporting dynamics. While firm-specific scalars may enable more granular adjustments to interest income projection, they could also make results overly sensitive to factors such as temporary portfolio mix shifts, unexplained reporting changes, or accounting differences. The proposed industry-level scalars support consistency across firms; reduce the risk of overfitting idiosyncratic behaviors that are not structurally persistent; and provide a more stable, transparent, and parsimonious mapping between modeled interest rates and reported income outcomes. The proposed industry-level scalars promote consistency and comparability across firms without introducing volatility into the interest income projections.

i. Clarification of Model Specifications

As previously discussed, the Board estimates interest income to consist of interest income from existing portfolios and re-originations during the projection period under the flat balance sheet assumption.[424] The Board's 2026 Proposed PPNR Model uses portfolio segments to reflect various interest income characteristics.[425] The primary determinant of the segmentation scheme is interest rate sensitivity, and each retail or wholesale portfolio is segmented into fixed-rate and variable-rate exposures to enable the Board to address the impact of interest rate changes on each type of exposure during the projection period. For each segment, an average jump-off interest rate weighted by outstanding balance is used as the starting point for projecting the segment-level interest rate. A segment-level weighted average of these jump-off interest rates captures differences in interest income across banks and portfolios. Differences in loan characteristics

[424] 2025 PPNR Model Documentation, 180.

[425] 2025 PPNR Model Documentation, 174–75.

within a segment, such as risk profile, appear as differences in the weighted average.[426] Projected credit card interest income, for example, depends on the portion of the balance that revolves and the interest rate.[427]

Interest income consists of interest income from existing portfolios and from new originations during the projection period under the flat balance assumption. Projections for both the wholesale and retail portfolios estimate new originations at each projection quarter based on sub-portfolio-specific runoff rates. The Board's runoff assumptions are generally aligned with those of the credit risk model and incorporate prepayments, defaults, amortization, and maturities, as applicable. Fixed-rate retail products include fixed-rate mortgage and home loans, auto loans, and most non-core loans. In the wholesale portfolio, fixed-rate products are more common for CRE income-producing loans. Fixed-rate products are less sensitive to changes in the base rate because only a fraction of the portfolio receives updated interest rates (i.e., the fraction of the portfolio made up of new originations).

Several commenters requested clarifications of the Board's 2026 Proposed PPNR Model specifications. One commenter supported segmenting revolving accounts for forecasting interest income on consumer credit cards but stated that the calculation of the interest rate spread should be explicitly limited to these accounts. The commenter noted that revolving accounts typically have higher annual percentage rates ("APRs") than transacting accounts and argued that calculating the spread across all accounts would underestimate interest income.

[426] *Id*.

[427] 2025 PPNR Model Documentation, 179.

The Board confirms that under the 2026 Proposed PPNR Model, the interest rate spread for the credit card portfolio is calculated based on the data of revolving accounts only. The Board revised the 2026 PPNR Model Documentation to clarify this aspect of the model.

Another commenter recommended that the Board clarify the classification of fixed installment loans, such as recreational vehicle ("RV") and marine lending products, in the 2026 Proposed PPNR Model. The commenter stated these products are generally fixed-rate but the 2026 Proposed PPNR Model is unclear as to whether they will be treated as fixed-rate or variable-rate, and misclassification could lead to distortions and disadvantage certain firms. The commenter also requested clarification of the jump-off interest rate for RV and marine loans, as well as for other product types (e.g., secured revolving, secured installment, unsecured revolving, unsecured installment, and overdraft products).

The Board confirms that RV and marine lending products are included in the "other consumer loans" category, which is classified as fixed rate for the purpose of interest income projection. As described in the 2025 PPNR Model Documentation, the jump-off interest rates of other consumer products are assigned at the aggregate product-type level, using the firm-level earned interest rates reported in the FR Y-14Q, Schedule G.2 for the most closely aligned business line.[428]

This commenter also requested clarification on the assumptions underlying the calculation of re-origination proportions for fixed-rate portfolios. The commenter specifically asked whether prepayment rates are modeled using firm-specific loan characteristics or standardized assumptions across scenarios, and, if the latter, if those assumptions could be disclosed; whether the 2026 Proposed PPNR Model incorporates remaining maturity and

[428] *See* 2025 PPNR Model Documentation, 180.

mortgage yield when determining amortization rates; and whether the default rate used in the calculation is derived from the proposed credit-risk models or established through separate assumptions.

The Board confirms that, in the 2026 Final PPNR Model, the re-origination portion of fixed-rate portfolios is calculated using similar re-origination assumptions to those in the retail and wholesale credit risk models. To calculate the re-origination portion of each segmentation, the final model incorporates default, maturity, amortization, and prepayment when appropriate in the interest income calculation. The Board's changes are reflected in the 2026 PPNR Model Documentation, Section A.ii.a, which includes added details of the re-origination mechanism assumed in the model.

2. Interest Income on Deposits with Banks and Other

No comments were received on this aspect of the 2026 Proposed PPNR Model, which is adopted as proposed and described in the 2026 PPNR Model Documentation.

3. Interest Income on Securities

As described in the 2025 PPNR Model Documentation, the Board's 2026 Proposed PPNR Model would project interest income from U.S. Treasuries, mortgage-backed securities (MBS), and other securities using structural models based on granular data from the FR Y-14Q regulatory report.[429] This approach would allow the Board to derive changes in interest income in the projected scenario directly from security characteristics (i.e., the type of interest rate variability). The proposed models for interest income on U.S. Treasuries, MBS, and other securities are each based on security-level microdata on form FR Y-14Q, Schedule B, and estimate interest income based on the sum of (a) coupon accruals for securities, (b) the

[429] 2025 PPNR Model Documentation, 168–69.

amortization or accretion of amortized cost, and (c) the interest income impacts from any qualifying associated accounting hedges. The Board's calculations use bond-specific details from FR Y-14Q, Schedule B.1 and vendor data, including rate and maturity.[430]

a. Reinvestment Assumption

As noted previously, the Board assumes a constant balance sheet for purposes of the supervisory stress test. To maintain a constant balance sheet in the 2026 Proposed PPNR Model, the Board proposed to apply a reinvestment assumption, also proposed in the Securities Model, with respect to the replacement of securities that pay down during the projection horizon.[431] Under the reinvestment assumption, firms reinvest in hypothetical U.S. Treasury securities with a one-year maturity, assumed to be purchased at face value, issued on the purchase date, and with coupon rates equal to the corresponding yield from the par U.S. Treasury curve at the forecast quarter in question. The Board projects both fair value and amortized cost for the proxy reinvestment instrument, producing unrealized gains and/or losses. The Board does not assume hedges will be placed on reinvestments and assumes the accounting intent for the reinvestment will be the same as the security it replaces. For the purposes of coupon accrual, the Board proposed to assume that all purchases in future quarters are made on the first day of the quarter subsequent to the maturing quarter of the security.[432]

One commenter supported the proposed reinvestment approach for U.S. Treasuries and agency mortgage-backed securities ("MBS"). However, the commenter asked that the Board publicly disclose its analysis of the reinvestment method. In particular, the commenter asked that the Board document that the choice to model reinvestment based on portfolio maturities is a

[430] 2025 PPNR Model Documentation, 190, 195, and 200.

[431] 2025 PPNR Model Documentation, 192–93.

[432] *Id.*

simplifying assumption because the approach ignores duration needs arising from changes to deposit and loan profiles and does not account for replacing duration aging[433] from other runoffs like held-to-maturity ("HTM") securities or accrual swap hedges. The commenter stated that the Board should also provide detail on how cashflows from hedges are reinvested and how subsequent cashflows from new securities are addressed under the 2026 Proposed PPNR Model. The commenter advised that if portfolio aging is considered, aging on all interest rate hedges should also be reflected.

The commenter also stated that the reinvestment assumption should be reflected in calculating risk-weighted assets ("RWAs") and other comprehensive income ("OCI"), and should be extended to other securities to avoid creating an artificial disadvantage for credit-sensitive securities.

Another commenter stated that the assumption that proceeds from maturing securities are reinvested into one-year U.S. Treasuries may not reflect typical practice and could significantly reduce interest income for firms that typically maintain longer-duration positions. The commenter recommended an alternative assumption that reinvestments occur at durations consistent with the durations of firm's jump-off positions, stating that this would improve accuracy and better align with actual asset-liability strategies.

The Board is finalizing the structural models for interest income on U.S. Treasuries, Agency MBS, and other securities (collectively "interest income on securities") with a targeted modification to the maturity assumption for other securities as described in Section A.ii.e of the 2026 PPNR Model Documentation. The models for interest income on securities are developed in harmonization with the Securities Model described in the Market Risk Model Documentation.

[433] Duration aging refers to an instrument's duration declining over time as it approaches maturity.

The two sets of models have many characteristics in common, including but not limited to the reinvestment assumption and the use of dynamic amortized cost. The harmonization of these models helps ensure consistency across different models used across the stress test.[434] See Section III.A above for a summary of comments that overlap between fair value and OCI and interest income projections.

As described in the 2026 Proposed PPNR Model, the computation of interest income for securities does not include interest income from hedges because the current version of FR Y-14Q, Schedule B.2 does not report the information needed to calculate hedge income. The Board will continue to evaluate alternative approaches for hedge income as the updated version of FR Y-14Q, Schedule B.2 becomes available.

The Board has also determined to retain the securities reinvestment assumption as proposed after considering the comments submitted. Consistent with the approach adopted in the Securities Model, the final model for interest income on securities assumes that maturing and prepaid securities are reinvested into one-year Treasury securities.[435]

b. Coupon Rate Data

As discussed above, the Board's Proposed PPNR Model estimates interest income on U.S. Treasuries, MBS, and other securities using the sum of (a) coupon accruals for securities, (b) the amortization or accretion of amortized cost, and (c) the interest income impacts from any qualifying associated accounting hedges.[436] For certain types of securities, the Board uses coupon rates from vendors, while for others, the Board uses the yield reported in FR Y-14Q,

[434] When possible and involving the estimation of similar items, the harmonization of assumptions, such as the reinvestment assumption and the dynamic amortized cost, is a desirable characteristic for stress test models as it guarantees consistency in accountancy or economic treatment across models.

[435] *See* 2025 Securities Model Documentation, 72–73, for further discussion of the reinvestment assumption.

[436] 2025 PPNR Model Documentation, 190, 195, and 200.

Schedule B.1. For other securities, such as floating-rate instruments, the Board assumes that all instruments are indexed to the three-month U.S. Treasury rate due to limitations in vendor securities data.[437]

One commenter stated that the different treatment of securities depending on the availability of coupon rate data could cause inconsistencies across projections. The commenter suggested that the Board add an item to Schedule B.1 of the FR Y-14Q to capture the coupon rates for all securities, enabling the Board to incorporate the appropriate coupon rates into its interest income on securities models even if they are not provided in the vendor data.

In response to the comment, the Board is proposing revisions to FR Y-14Q, Schedule B.1, to collect coupon rate data for each security. Pending the implementation of the proposal, the Board will consider modifications in its approach to the interest income on securities models to incorporate reported coupon rates into the models. Nevertheless, in the absence of security-specific coupon data, the Board believes that the approximations under the proposed model reasonably capture the overall behavior of interest income on securities during stress. For example, indexing floating-rate instruments to the three-month U.S. Treasury rate appropriately reflects the typical decline in short-term rates observed during economic downturns.

c. Agency MBS Amortization or Accretion

In its interest income on MBS model, the Board proposed to calculate accretion or amortization to account for the pull-to-par of the amortized cost of the security and its impact on income. For agency residential MBS, the Board proposed to use the straight-line method, leveraging the *t=0* Weighted Average Life ("WAL"). For all other MBS, the Board proposed to

[437] *See* 2025 PPNR Model Documentation, 155–56.

calculate accretion or amortization using the effective interest method. Under this method, the Board would assume that both the coupon rate and book yield remain constant throughout the life of the security. If either the coupon rate or book yield data is unavailable, the Board would use the straight-line approach for amortization or accretion.[438]

One commenter disagreed with the Board's proposal to amortize premiums and discounts on agency MBS using a static WAL assumption. Per the commenter, the Board's proposed method would smooth the impact of prepayments over the projected life of the bond and fail to capture the true timing of income recognition (i.e., when prepayments occur), which would be inconsistent with how firms account for prepayment impacts in practice and could misstate net interest income under stress. The commenter suggested that the Board use vendor-modeled prepayment paths to drive the timing of the premium and discount in the amortization of net interest income. According to the commenter, this change would make the model more accurate by reflecting the actual timing of payments in amortization income.

The Board has considered the comment and has determined to retain the use of non-scenario-conditional WALs for calculating Agency MBS amortization or accretion as proposed. This assumption is warranted because scenario-dependent WALs are not available from the third-party vendor model.[439] The Board considers this simplified WAL assumption to be reasonable given the technical constraint described above and in keeping with the simplicity principle established in the Stress Testing Policy Statement.[440]

[438] 2025 PPNR Model Documentation, 197.

[439] A scenario-dependent WAL is a model-generated value (not a data point obtained from a third-party data vendor) so there is no alternative data source that could be considered.

[440] 12 CFR 252, Appendix B, section 1.4.

In response to the commenters' concern that static WAL would inaccurately project amortization or accretion of Agency MBS, the Board is clarifying that the final model adjusts WALs every quarter to reflect time passage. More specifically, the WAL used in the amortization or accretion calculation would be shortened by 0.25 every quarter, consistent with the dynamically adjusted face value and amortized cost. Additionally, the 2026 PPNR Model Documentation adjusts Equation A11 so that the amortization or accretion of Agency MBS is calculated in accordance with the amortized cost path in the Securities Model, instead of the original equation included in the proposed model documentation. The 2026 PPNR and Market Risk Model Documentations reflect these revisions.

d. Agency MBS Vendor Model

As discussed above, the Board's 2026 Proposed PPNR Model estimates interest income on MBS using the sum of (a) coupon accruals for securities, (b) the amortization or accretion of amortized cost, and (c) the interest income impacts from any qualifying associated accounting hedges.[441] The Board's 2026 Proposed PPNR Model uses bond-specific details from FR Y-14Q, Schedule B.1, in addition to vendor data for interest income on MBS projections. For MBS in particular, the Board proposed to use a vendor model to account for the prepayment behavior of residential mortgage-backed bonds. This vendor model was proposed for use in both the interest income on securities model and the Securities Model.[442]

One commenter requested more information on the specification of the vendor model used for the interest income on securities model for MBS. Another commenter asked that vendor

[441] 2025 PPNR Model Documentation, 190, 195, and 200.

[442] 2025 PPNR Model Documentation, 196.

model results for Agency MBS be disclosed in order to assist firms in validating projections and understanding prepayment and cash flow dynamics.

As described in Section A.iii.a.(1)(c) of the Market Risk Model Documentation, the Board revised the Market Risk Models documentation to clarify the vendor model's standard stress testing workflow and to give clarity on the specific macroeconomic scenario data that is passed to the model when it is queried for a scenario-conditional price projection for a given CUSIP. Because the same vendor model is used for interest income projection, the description of the vendor model is applicable to the models for interest income on securities. While a commenter recommended disclosure of vendor model results, this degree of disclosure is not necessary to advance the goals of the Board's Enhanced Transparency and Public Accountability final rule. The Board chose to utilize a vendor model to project Agency MBS given the materiality and relatively high complexity of the asset class (as further discussed in Section A.iii.a(c) of the Market Risk Models documentation).

e. Maturity of Other Securities

As discussed above, the Board's 2026 Proposed PPNR Model estimates interest income on other securities using the sum of (a) coupon accruals for securities, (b) the amortization or accretion of amortized cost, and (c) the interest income impacts from any qualifying associated accounting hedges.[443] The Board's Proposed PPNR Model uses bond-specific details from FR Y-14Q, Schedule B.1 and vendor data, including rate and maturity, to project interest income on other securities.

One commenter disagreed with the Board's proposal to use the legal maturity date to project the holding period, income, and amortization of other securities in the interest income

[443] 2025 PPNR Model Documentation, 190, 195, and 200.

model. The commenter asserted that this approach is not reasonable for many structured and callable bonds, which have expected lives or average lives that are much shorter than those inferred from their legal maturity dates due to amortization, prepayments, or call features. According to the commenter, the Board's proposed approach would overstate the duration, balance, and income of these securities, resulting in an unrealistically slow amortization of premiums or discounts. The commenter also asserted that the Board's proposed approach would be inconsistent with the Securities Model, in which the Board proposed to use vendor-supplied durations based on expected cash flows instead of legal maturity. The commenter recommended that the Board instead use expected life or weighted-average life data from vendor models; alternatively, the commenter recommended that the Board use internal analytics to project interest income on other securities based on estimations of projected cash flows and in order to reflect the true expected timing of principal return. The commenter also stated that this approach would align the 2026 Proposed PPNR Model and Market Risk Model, result in more accurate income and amortization projections, and better reflect the actual risk and behavior of structured and callable securities.

The Board has considered the comment and determined to finalize the proposed model for interest income on other securities with a targeted modification to the maturity assumption as described below.

Under the 2026 Proposed PPNR Model, all securities in the other securities category would have been assumed to mature as they reached contractual maturity obtained from vendor data. The 2026 Final PPNR Model instead uses weighted average life ("WAL") as the maturity date for structured products and the contractual maturity date for the remainder of other securities. The Board chose this treatment to maintain consistency with the Securities Model, in

which the Board modified assumptions related to aging, maturity, and reinvestment for certain classes of securities. As further described in the 2026 PPNR Model Documentation and 2026 Market Risk Model Documentation, the scope of these targeted modifications is the same for the two sets of models. The Board considers the use of contractual maturity to be a reasonable simplification for other securities excluding structured products and is adopting the methodology as proposed. As discussed in Section III.A above, the Board may pursue revisions to the treatment of callable bonds under a future proposal.

a. Clarification of Model Specifications

As discussed above, the Board's Proposed PPNR Model estimates interest income on U.S. Treasuries, MBS, and other securities using the sum of (a) coupon accruals for securities, (b) the amortization or accretion of amortized cost, and (c) the interest income impacts from any qualifying associated accounting hedges.[444] The proposed interest income on mortgage-backed securities specification is available in the 2025 PPNR Model Documentation using Equation A41 (Interest Income on MBS Projection).[445]

For MBS other than Agency residential MBS, the Board's proposed model for interest income on MBS calculates coupon accrual using the beginning-of-the-period face value at time *t* and the coupon rate of the bond in question.[446]

One commenter requested clarification of whether the proposed model assumes that the current face value and coupon rate remain constant throughout the projection horizon for the estimation of interest income on U.S. Treasuries, MBS, and other securities. If the proposed model does not make this assumption, the commenter requested clarification regarding the roll-

[444] 2025 PPNR Model Documentation, 190, 195, and 200.

[445] 2025 PPNR Model Documentation, 196.

[446] *Id*.

forward methodology for current face value and amortized cost in each forecasting period. This commenter also stated that in Equation A41 (Interest Income on MBS Projection), both amortized cost and current face value could use values from $t = 0$ rather than time-carrying values.

The Board confirms that under the 2025 PPNR Model and 2026 Proposed PPNR Model for interest income on securities, the coupon rate remains constant for the remaining life of a security if the security has a fixed coupon rate. Current face value remains constant throughout the projection horizon for all securities except for securities for which prepayment is considered (e.g., Agency MBS). Current face value and amortized cost for such securities are assumed to be time-varying and are projected by the third-party vendor model incorporating prepayment effects. As discussed in Section VI.B.3.c, the Board revised Equation A11 in the 2026 PPNR Model Documentation to correctly specify the amortization and accretion mechanism the Board applies to Agency MBS, where amortized cost is calculated in accordance with the amortized cost path in the Securities Model. The Board also made other revisions in the 2026 PPNR Model Documentation to clarify assumptions about variables, including by explicitly describing the methodology used to estimate the margin over the indexes of floating rate notes and clarifying that this margin is floored at zero in all projection quarters.

f. OCI Releases from Securities

In the 2025 PPNR Model Documentation, the Board identified items related to securities and hedging that impact interest income but will not be incorporated in the 2026 Proposed PPNR Model for interest income on securities. One such item is the impact on income from other comprehensive income ("OCI") releases from securities previously transferred from

available for sale ("AFS") to held-to-maturity ("HTM").[447] The Board did not receive comments on this specific aspect of the model. While the Board is finalizing the model with no modifications to this approach, the Board will continue to consider whether changes are warranted to ensure accuracy of the projection.

4. Interest Income on Other Interest/Dividend-Bearing Assets

No comments were received on this aspect of the 2026 Proposed PPNR Models, which is adopted as proposed and described in the 2026 PPNR Model Documentation.

5. Interest Expense on Deposits

As described in the 2025 PPNR Model Documentation, the Board proposed using a structural model to estimate interest expense on deposits, including domestic time deposits, other domestic deposits, and foreign deposits.[448] For domestic time deposits and foreign deposits, the Board proposed a model that related deposit rate as reported in the FR Y-14Q to the modeled rate times the average balance on deposits as reported in the FR Y-14Q.[449] For other domestic deposits, the Board's proposed model was split into two regimes, each with its own model specification depending on the level of the 3-month Treasury yield in a particular projection quarter.[450] In the effective lower bound period, the firm-specific spread to the 3-month Treasury yield is estimated as the average distance between the deposit rate paid by the firm during the most recent effective lower bound period. In the non-effective lower-bound regime, the interest rate on deposits is estimated to equal the interest rate from the previous period plus the change in

[447] 2025 PPNR Model Documentation, 204.

[448] 2025 PPNR Model Documentation, 172.

[449] 2025 PPNR Model Documentation, 209, 211–12, and 215.

[450] 2025 PPNR Model Documentation, 209, 211–12

the 3-month Treasury yield multiplied by a beta coefficient that is calculated as the median of firm-reported betas from the FR Y-14Q, Schedule G.[451]

a. Segmentation of Deposit Beta

As described in the 2025 PPNR Model Documentation, the Board proposed using a structural model to estimate interest expense on other domestic deposits, using data reported on the FR Y-14Q that captures the interest rates on subcomponents of domestic deposits.[452] The proposed model is split into two regimes, each with its own model specification depending on the level of the 3-month Treasury yield in a particular projection quarter. The effective lower-bound period occurs when the 3-month Treasury yield is below 25 basis points in a projection quarter, while the non-effective lower bound occurs when this yield exceeds 25 basis points. In the non-effective lower-bound regime, the interest rate on deposits would equal the interest rate from the previous period plus the change in the 3-month Treasury yield multiplied by a "beta" coefficient that is calculated as the median of firm-reported betas from the FR Y-14Q, Schedule G.[453]

One commenter disagreed with the Board's proposal to use the median deposit betas reported by firms to estimate interest expense in the proposed model. The commenter stated that this approach could overlook significant variation in betas and launch point rates driven by individual deposit franchise characteristics. To mitigate this potential effect, the commenter suggested that the Board introduce deposit beta segmentation by (1) wholesale and retail deposit categorization and (2) firm size. The commenter asserted that wholesale-retail segmentation is appropriate because retail deposit betas on "Other Domestic Deposits" are generally

[451] *Id.*

[452] 2025 PPNR Model Documentation, 211.

[453] 2025 PPNR Model Documentation, 211–12.

meaningfully lower than wholesale deposit betas; the commenter referenced the Board's Regulation WW as an example of how to define those terms. Two commenters noted that separating retail and commercial betas in the model would better reflect the dynamics of different business lines; one of these commenters also highlighted that this segmentation would more accurately reflect behavior across various rate environments. Further, one commenter asserted that firm size segmentation is appropriate to capture the fact that larger firms have historically exhibited lower deposit betas, as their value proposition derives from the breadth of their offerings rather than only rates.

One commenter also recommended that the Board add items to FR Y-14Q, Schedule G.3 to stratify deposits at the retail versus wholesale level and apply separate rate-up and rate-down betas to each portfolio segment in modeling interest expense.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 PPNR Model Documentation. However, the Board will investigate whether to implement changes that would reflect the variation in deposit characteristics across firms and deposit types in future stress tests.

The Board believes it is appropriate to consider deposit beta segmentation over retail and wholesale and by firm size jointly. Specifically, the Board expects to explore approaches to incorporate variation in betas and launch point rates by segmenting firms by size and retail and wholesale deposits following the collection of more granular data. In doing so, the Board expects to consider the impact of additional segmentation and whether it would more accurately reflect behavior across different lines of business and rate environments. Modifying the interest expense on deposits models by separating retail and wholesale deposits would require additional data granularity. As described in Section VI.A.2 the Board proposes adding new fields to the FR

Y-14Q, Schedule G.2 and Schedule G.3 to separate retail and wholesale deposits to allow for the consideration of additional model modifications.

b. Foreign Deposits

As described in the 2025 PPNR Model Documentation, the Board proposed using a regression model to estimate interest expense on foreign deposits, which is comprised of interest expense on all deposits in foreign offices included in the interest-bearing deposits in foreign offices, edge and agreement subsidiaries, and international banking facilities line items, as well as premiums paid or discounts received on foreign exchange contracts related to financial swap transactions that involve deposits in foreign offices.[454] The proposed model includes 3-month Treasury yield as the macroeconomic input variable in accordance with the Board's standard procedure for macroeconomic variable selection.

One commenter stated that the Board's proposed approach to use U.S. Treasury rates to model interest expense on foreign deposits is inadequate because it would overlook currency and interest rate differences across countries. Instead, the commenter suggested that the Board use a currency-weighted index model, built from each firm's reported geographic or currency exposures, to more accurately reflect foreign deposit costs and reduce basis risk. The commenter added that collecting data on the top currencies held in deposit accounts would allow the use of appropriate regional reference rates and would eliminate currency mismatches.

The Board has considered the comments submitted and has determined to retain the model specifications in the 2025 PPNR Model. Specifically, the Board retains the assumption that re-originated foreign deposits are priced at the three-month Treasury yield as proposed in the 2025 PPNR Model Documentation, Section B.v.a.(9)(b). While this assumption does not

[454] 2025 PPNR Model Documentation, 215.

directly reflect the fact that foreign deposits earn a rate connected to that of their country of origin, this approach aligns with the severely adverse scenario in the stress test, which assumes a worldwide recession in which all central banks lower interest rates substantially, and balances economic reality with the stress testing principle of simplicity.

c. Shifts in Deposit Mix

As discussed in the Board's 2025 proposal,[455] the stress test models, including the proposed interest expense on deposits models, feature a flat balance sheet assumption (i.e., a firm's balance sheet is assumed to remain unchanged throughout the projection horizon).[456]

One commenter stated that the flat balance assumption does not capture shifts in deposit mix between interest-bearing, non-interest bearing, and time deposits under stress. The commenter stated that in a declining rate environment, this simplification could overstate interest expense because it ignores customer migration to lower-cost products. The commenter recommended that the Board incorporate deposit mix shifts that reflect rate-sensitive deposit behavior.

The Board has considered the comments submitted and has determined to retain the model specifications described in the 2025 PPNR Proposal and 2025 PPNR Model Documentation. The Board applies the flat balance sheet assumption, as described in the Stress Testing Policy Statement,[457] to both assets and liabilities of firms subject to the stress test. Consequently, the Board has determined not to incorporate deposit mix shifts in its interest expense models. See Section V.A above for a more detailed discussion of the flat balance sheet

[455] 90 FR 51856 (Nov. 18, 2025).

[456] Note that the flat balance sheet assumption is discussed in other parts of this document, including Sections V.A, VI.D.1.k, and VI.E.

[457] *See* 12 CFR 252, Appendix B, section 2.7.

assumption. The Board also believes that this model choice reflects the stress testing principle of simplicity, as modeling of rate-sensitive deposit mix shifts would add further complexity to the model.[458]

d. Effective Lower Bound Period

As discussed above and in the 2025 PPNR Model Documentation, the Board proposed using a structural model to estimate interest expense on other domestic deposits.[459] The proposed model is split into two regimes, each with its own model specification depending on the level of the 3-month Treasury yield in a particular projection quarter. The effective lower-bound period occurs when the 3-month Treasury yield is below 25 basis points in a projection quarter, while the non-effective lower bound occurs when this yield exceeds 25 basis points. In the non-effective lower-bound regime, the interest rate on deposits would equal the interest rate from the previous period plus the change in the 3-month Treasury yield multiplied by a beta coefficient that is calculated as the median of firm-reported betas from the FR Y-14Q, Schedule G.[460]

One commenter requested clarity as to whether a 3-month Treasury yield equal to 25 basis points falls within or outside of the effective lower bound regime in the PPNR interest expense model. The Board has considered the comment and has updated its 2026 PPNR Model Documentation to confirm that a 3-month Treasury yield equal to 25 basis points falls within the effective lower bound regime.

6. Interest Expense on Federal Funds Purchased and Securities Sold under the Agreement to Repurchase

[458] 12 CFR 252, section 1.4.

[459] 2025 PPNR Model Documentation, 211.

[460] 2025 PPNR Model Documentation, 211–12.

No comments were received on this aspect of the Proposed PPNR Models, which is adopted as proposed and described in the 2026 PPNR Model Documentation.

7. Proposed Adjustments to Pre-Provision Net Revenue Models to Incorporate the Impact of Interest Rate Risk Hedges

Firms use derivative instruments to hedge their exposure to interest rate risks (e.g., interest rate swaps, interest rate lock commitments, and forward sales commitments and swaptions). In 2025, the Board proposed to collect additional data on firms' interest rate risk hedging positions for accounting hedges as part of FR Y-14Q data collection for Schedule B.2.[461] In particular, the Board proposed requesting that firms provide quarterly snapshots of their qualified accounting hedging positions at the end of each quarter, noting which portfolio a given derivative is hedging. The Board also proposed to collect data on the notional amount, derivative type, fixed and floating rate details, and the maturity of hedges.[462] Based on the collected data, the 2026 Final PPNR Model would calculate the hedge net interest income impact according to the difference between accrued interest income and accrued interest expense.

a. Amortization

As discussed above, the Board proposed to include hedge impact projections in the 2026 Proposed PPNR Model to estimate the impact of existing qualified accounting hedges on firms' interest income and expense positions for each component of PPNR over the stress test horizon.[463] The hedge impact projections would eventually be incorporated into the interest income on securities models. However, the Board would only be able to implement its proposed hedge impact projections after revisions to FR Y-14Q, Schedule B.2, are finalized and granular

[461] 2025 PPNR Model Documentation, 221.

[462] *Id.*

[463] *Id.*

data on hedges are available. The 2026 Final PPNR Model thus does not include these hedging adjustments at this time.

One commenter stated that the Board should revise the way it incorporates amortized cost in OCI in the securities model to improve accuracy. For any amortized cost reporting that includes life-to-date hedge adjustments, the commenter argued that the Board should remove the hedge adjustment. The commenter recommended that the Board use the swap's clean present value as a proxy for the hedge's rate impact, then amortize the net amortized cost. The commenter asserted that this approach would better reflect the economic impact of the scenario on OCI. To facilitate this approach, the commenter recommended including in FR Y-14Q, Schedule B.1, a flag identifying whether amortized cost contains hedge adjustments and including in FR Y-14Q, Schedule B.2, the clean present value of swap hedges.

This commenter also disagreed with the Board's proposed approach to amortize hedge adjustments for net interest income. The commenter explained that the Board's proposed approach would only account for the hedge adjustment in amortized cost and would omit amortization of the swap's present value, resulting in "one-sided" amortization that would materially misstate net interest income and fail to reflect the economics of hedged positions. This commenter suggested that the Board adopt a consistent approach by either (1) amortizing the swap present value to offset the amortized cost that includes the hedge adjustment, or (2) adjusting the amortized cost for swap present value and amortizing net amortized cost, thereby eliminating the need for a separate swap amortization. To implement this recommendation, the commenter suggested that the Board expand FR Y-14Q, Schedule B.2, to capture data on the swap present value and maturity date, while also expanding FR Y-14Q,

Schedule B.1, to capture data on whether the amortized cost amount includes a hedge adjustment.

Additionally, the commenter suggested that the Board should capture the hedge adjustment and the associated amortized schedule for debt hedges. Per the commenter, the Board does not collect information on terminated fair value debt hedges or cash flow hedges. The commenter noted that when a fair value debt hedge is terminated, the hedge adjustment is amortized into net interest income over the original life of the hedged debt instrument. For terminated cash flow swaps, the clean present value of the swap at termination is amortized into net interest income over the original life of the swap. The commenter stated that, if it does not collect the clean present value of the cash flow swap or the closed fair value hedge adjustment of debt instruments, the Board would miss a material component of net interest income related to the ongoing amortization of terminated hedge adjustments, resulting in incomplete and inaccurate projections. To ensure that the amortization of the hedge adjustments and swap present values are properly reflected in net interest income, the commenter recommended that the Board capture the hedge adjustment and its amortization schedule for fair value debt hedges and capture the clean present value at termination and the amortization period for cash flow swaps. To implement this recommendation, the commenter suggested that the Board collect data on unamortized terminated hedge adjustments.

In determining to maintain the proposed amortized cost projection methodology, the Board considered comments stating that hedge adjustments should be removed when applicable and supplemented by an expanded FR Y-14Q, Schedule B. The Board agrees that using additional FR Y-14Q, Schedule B fields and removing hedge adjustments from the initial amortized cost could result in more accurate capture of premium or discount amortization and

improved projection of securities OCI and interest income without a one-sided amortization of hedge adjustments. The Board is proposing revisions to the FR Y-14Q, Schedule B to support this change.[464] In the interim, the Board is adopting the proposed methodology pending the availability of data necessary to remove hedge adjustments from firm-reported amortized cost. The Board also considered comments suggesting the scope of modeled interest rate risk hedges should be expanded to include terminated fair value debt hedges or cash flow hedges. However, such revisions would constitute a substantial departure from the proposal and require hedge position data that is not currently available.

b. Non-Accounting Hedges

The Board defined accounting hedge derivatives in the 2025 Model Documentation as those that qualify for hedge accounting treatment by meeting strict accounting designation criteria and that are designated as accounting hedges by the firm, while non-accounting hedge derivatives are used to mitigate risks but do not receive hedge accounting treatment.[465] Although all derivatives, including those underlying interest rate risk hedges, are recorded on the balance sheet at fair value, with gains or losses reflected in net income, interest rate risk accounting hedge derivatives are subject to specific accounting models that generally offset the instrument's changes in fair value against the hedged item's gains or losses, thereby reducing the volatility of firms' net income.[466]

One commenter asked that mitigants and hedges be incorporated into the models in ways that align with their risk-reducing nature. The commenter suggested that the Board recognize hedges that do not meet accounting hedge criteria but that meaningfully reduce economic risk.

[464] *See* 2027 Models and Reporting Proposal.

[465] 2025 PPNR Model Documentation, 220.

[466] *Id.*

According to the commenter, certain hedges that firms may use in managing risk at the portfolio level (e.g., interest rate risk hedges) would not qualify as accounting hedges because they do not hedge one clearly identified asset or cash flow. Since these hedges nevertheless mitigate net interest income risk, the commenter suggested that they be incorporated into the Board's net interest income hedge calculations. The commenter also recommended that the Board collect data on these hedges on the FR Y-14Q.

Another commenter similarly suggested that the Board incorporate risk-mitigating hedges that do not meet the requirements of accounting hedges in its 2026 Proposed PPNR Model. The commenter recommended collecting similar data in the proposed FR Y-14Q hedge fields for non-accounting hedges as for accounting hedges to estimate the impact of such non-accounting hedges on interest income and expense. The commenter stated that the criteria for qualifying for an accounting hedge are narrow but that non-accounting hedges also provide risk mitigation and reduction of volatility in interest income and expenses. The commenter acknowledged that hedge accounting criteria provide a known basis to qualify for risk mitigation and that not all hedges may be appropriate for income and expense offset. However, the commenter suggested that data should be collected about interest rate risk hedges meeting the criteria outlined in SR 10-1 and suggested that such instruments should be included as hedges under the stress test.

Additionally, the commenter stated that omitting non-accounting but effective hedges disincentivizes good management practices. In particular, the commenter stated that it would make stressed noninterest income dependent on hedge designation rather than the substance of the hedge and would penalize firms (including many foreign banking organizations) that use economic hedging without accounting designations. The commenter stated that not relying on accounting categorization would allow a greater focus on risk management and address form-

over-substance shortcomings. Finally, the commenter stated that including effective non-accounting hedges would leverage the existing proposed model architecture to improve comparability across firms, encourage banks to use additional forms of hedges to mitigate interest rate risk, and result in a simpler and more transparent modeling approach.

In a separate action, the Board is adopting proposed revisions to FR Y-14Q, Schedule B to collect contract-level information on interest rate risk hedges of securities and loans, with modifications to refine the scope of hedges reportable on Schedule B.2, incorporating economic hedges of banking book interest rate risk in addition to fair value and cash flow accounting hedges.[467] In determining to finalize the revisions to FR Y-14Q, Schedule B with the modifications noted above, the Board considered comments suggesting that hedges that do not meet accounting hedge criteria but nevertheless meaningfully reduce economic risks should be reported. The Board also considered comments stating that excluding hedges based on accounting designation may result in inconsistent treatment across hedge portfolios and misalignment with the economic substance of firm risk management activity. In broadening the hedge collection beyond accounting hedges, the data collection could facilitate a more consistent and comparable view of risk mitigation across covered companies. Going forward, the Board will review this data and consider how it could be incorporated in the PPNR Model, and consider whether to make model modifications in the future.

c. Hedge Income Formula

The Board's 2026 Proposed PPNR Model interest income on securities models project interest income as the sum of coupon accrual, accretion or amortization, and hedge income. Hedge income is calculated to account for the impact of qualifying accounting hedges associated

[467] *See* 91 FR 33156 (May 20, 2026).

with a security and its impact on interest income. The FR Y-14Q, Schedule B.2 provides information on qualifying accounting hedges associated with securities. However, because the current schedule does not report the information needed to calculate hedge income, the Board proposed to assume that hedge income will initially be zero.[468]

One commenter requested confirmation of whether the hedge income formula correctly reflects the intended calculation. This commenter also recommended that the formula use "Received Rate minus Pay Rate" to align with standard swap income computation.

The Board clarifies that the hedge income formula in the 2025 PPNR Model Documentation was intended for illustrative purposes only. The Board is removing this formula from the 2026 PPNR Model Documentation. Following the implementation of the proposed changes in FR Y-14Q, Schedule B.2, which will enable the Board to collect more granular hedge information at the instrument level, the Board expects to develop a more comprehensive methodology for hedge income calculation that aligns with standard swap income computation principles.

d. Purpose and Scope of Schedule B.2

As noted above, the Board's 2025 PPNR Model Documentation included a proposal to collect additional data on firms' interest rate risk hedging positions for accounting hedges as part of FR Y-14Q data collection for Schedule B.2.[469] The Board defined accounting hedge derivatives as those that qualify for hedge accounting treatment by meeting strict accounting designation criteria and that are designated as accounting hedges by the firm, while non-accounting hedge derivatives are used to mitigate risks but do not receive hedge accounting treatment. The Board stated that although all derivatives, including those underlying interest rate

[468] 2025 PPNR Model Documentation, 202.

[469] *See* 91 FR 33156 (May 20, 2026) (codified at 12 CFR part 225).

risk hedges, are recorded on the balance sheet at fair value, with gains or losses reflected in net income, interest rate risk accounting hedge derivatives are subject to specific accounting models that generally offset the instrument's changes in fair value against the hedged item's gains or losses, thereby reducing the volatility of firms' net income.

One commenter asserted that the apparent purpose of the changes to FR Y-14Q, Schedule B.2 is to capture accounting hedges for interest rate risk. The commenter stated that the Board should clarify whether it intends to collect information on all accounting hedges, including revenue and expense cash flow hedges of foreign exchange risk and net investment hedges. If the intent is to include all qualified accounting hedges, the commenter recommended that the Board clarify whether it intends to collect information on closed cash flow hedges. The commenter also stated that the Board should consider adding "net investment hedge" as an option for item 15 of FR Y-14Q, Schedule B.2.

In determining to finalize the revisions to FR Y-14Q, Schedule B with the modifications noted above, the Board considered comments regarding the intention of Schedule B.2 to capture only accounting hedges for interest rate risk and on the potential collection of additional information on accounting hedges, including revenue and expense cash flow hedges of foreign exchange risk and net investment hedges. The Board clarifies that the final revisions to FR Y-14Q, Schedule B aim to collect contract-level information on accounting and economic hedges for interest rate risk while excluding non-interest rate risk hedges and closed cash flow hedges. The Board is not collecting contract-level information on non-interest rate risk hedges and closed cash flow hedges at this time because these two types of hedges are less important in the evaluation of interest rate risk compared to accounting and economic hedges, and the Board

therefore determined that the burden of the increased data collection would not outweigh the expected benefits for stress testing at this time.

C. Proposed Interest Income/Expense Regression Models

The Board proposed to use regression models for two components of PPNR, net interest income on trading assets and liabilities and interest expense on other borrowing.[470] The Board proposed to estimate net interest income on trading assets and liabilities through a regression model in which the ratio for each firm depends on the contemporaneous level of the 3-month Treasury yield and a fixed effect estimated for that firm.[471] The Board proposed to estimate interest expense on other borrowing, which includes interest expense on subordinated debt, short-term borrowing, and other interest-bearing liabilities, with a regression model that estimates interest expense on the contemporaneous level of the BBB corporate bond yield, the compositional mix of each firm's portfolio, and a fixed effect estimated for each firm.[472]

1. General Comments

As discussed above, the Board proposed to use regression models for net interest income on trading assets and liabilities and interest expense on other borrowing, including interest expense on subordinated debt, short-term borrowing, and other interest-bearing liabilities.[473] One commenter suggested that the Board split these two regression models into three parts and follow a distinct modeling approach for each. First, the commenter disagreed with the Board's proposed approach to modeling "other short-term borrowing." The Board proposed to include other short-term borrowing as part of the interest expense model for other borrowing. The

[470] 2025 PPNR Model Documentation, 169.

[471] 2025 PPNR Model Documentation, 225.

[472] 2025 PPNR Model Documentation, 230.

[473] 2025 PPNR Model Documentation, 225.

commenter asserted that the other short-term borrowing line item should instead be included as part of the sales and trading net interest income model, as those other short-term borrowing liabilities are generally used to fund trading assets and should be modeled via a regression model that combines projections for net interest income on trading assets and liabilities with interest expense on other short term borrowing. Second, the commenter suggested a structural model for interest expense on subordinated and senior debt, and third, suggested a simple regression or flatline model for interest expense on other interest bearing liabilities, a residual category of liabilities not covered in the other two models.

The Board has considered the comment and is adopting the two regression-based models (net interest income on trading assets and liabilities and interest expense on other borrowing) for net interest income as proposed.

The proposed approach to modeling other short-term borrowing is consistent with data currently available to the Board. The FR Y-14Q instructions define "Other Short-Term Borrowing" (Schedule G.2, item 36C) by referencing the "Other borrowed money" and "Subordinated notes and debentures" in FR Y-9C (Schedule HC, items 16 and 19a, respectively).[474] These definitions include diverse liability items, ranging from commercial paper to miscellaneous obligations for the purpose of borrowing money. While these items may be used for funding trading assets, they include liabilities that are not exclusive to funding trading assets. The proposed approach to model other short-term borrowing as part of interest expense on other borrowing model, not net interest income on trading assets and liabilities, leverages the available granularity in the regulatory data while capturing the variety of ways these liabilities are incurred.

[474] *See* Reporting Form FR Y-14Q Instructions.

Further, the Board has considered comments regarding the development of structural models specific to interest expenses for senior and subordinated debt. The Board acknowledges that a structural approach would be a viable way of recognizing firms' different exposures to distinct liabilities. However, after reviewing the comments, the Board is adopting the model on interest expense on other borrowing as proposed. As discussed in the 2025 PPNR Model Documentation, the proposed approach jointly models multiple liability items while explicitly capturing firms' heterogeneous liability exposures. The model assumes the rate paid on these liabilities equals the three-month Treasury rate plus a firm-specific credit spread. The three-month Treasury rate represents the base rate for short-term risk-free instruments, while the firm-specific credit spread captures the premium each firm pays above this base rate due to liability duration and credit risk. Specifically, the credit spread is modeled as a function of each firm's compositional mix of liabilities and a firm-specific fixed effect. The compositional mix captures exposure to liabilities of different durations and credit risk, while the firm-specific fixed effect captures additional heterogeneity not explained by the compositional mix alone. Through this structure, the model recognizes that different firms face materially different liability costs based on their funding mix and creditworthiness.

While the Board acknowledges that the short-term component of these liabilities may be referenced to domestic or foreign currency rates other than the three-month Treasury rate, the three-month Treasury rate parsimoniously reflects economic dynamics observed during recessions, when central banks across countries lower rates, leading to decreased interest expense paid on liabilities. Under the severely adverse scenario, this dynamic is captured through lower three-month Treasury rates, while firms' heterogeneous liability risk premia are preserved

through the credit spread component. The proposed model balances economic experience with the Stress Testing Policy Statement principle of simplicity.[475]

The Board will continue to assess the effectiveness of the adopted model and will further investigate its advantages and disadvantages relative to a structural approach. Should the Board determine that a structural model could better balance economic reality with the Stress Testing Policy Statement principles of robustness and simplicity, any proposed changes would include FR Y-14 revisions to collect the necessary data to implement such modifications.[476]

2. Net Interest Income on Trading Assets and Liabilities

The Board proposed to use a regression model to estimate net interest income on trading assets and liabilities. Under the Board's approach, interest income and expense on trading assets are modeled as a single net quantity (interest minus expense), expressed as a ratio normalized by net trading assets (assets minus liabilities). In the proposed regression model, the ratio for each firm depends on the contemporaneous level of the 3-month Treasury yield and a fixed effect estimated for that firm.[477]

Two commenters suggested that the Board's proposal to use the 3-month Treasury yield as the sole driver of net interest income on trading assets and liabilities is inappropriate because net interest income on trading assets and liabilities is generated from a wide array of interest-earning assets, including assets of various maturities and assets denominated in foreign currencies. Therefore, per the commenters, the 3-month Treasury yield would misstate currency yields for firms with currency exposures beyond the U.S. dollar. The commenters added that this approach would assume reinvestment into hypothetical Treasury securities with one-year

[475] 12 CFR 252, Appendix B, section 1.4.

[476] 12 CFR 252, Appendix B, section 1.4, 1.5.

[477] 2025 PPNR Model Documentation, 225.

maturities, which would overlook the actual tenor distribution of firms' balance sheets. One of the commenters stated that, although disclosure constraints (i.e., the unavailability of firm-specific regression fixed effects and model-level net interest income forecasts) limit firms' ability to assess the proposed model, a sensitivity analysis showed that undisclosed parameters could materially understate projections of net interest income over the forecast horizon.

Another commenter stated that an empirically viable regression model for net interest income for trading assets and liabilities must also include interest rates at other maturities beyond three months, as well as interest rates on bonds denominated in foreign currencies. This commenter stated that joint modeling of both net interest income and noninterest income for sales and trading would resolve the issues identified above while more accurately projecting sales and trading revenue. The first commenter recommended that the Board collect additional relevant data in the FR Y-14 and use structural models to estimate net interest income trading assets and liabilities more broadly to address portfolios' relevant currency and tenor features.

The 2026 Proposed PPNR Model would estimate net interest income on trading assets and liabilities through a regression using the 3-month Treasury yield as the single macroeconomic factor.[478] The Board considers the proposed specification to be appropriate, in the interest of simplicity and model stability. As discussed in the 2025 PPNR Model Documentation,[479] the Board examined alternative macroeconomic variables, including the term spread and the BBB corporate credit spread, because these variables could reflect interest income and expense streams arising from exposures to long-term interest rates and credit

[478] 2025 PPNR Model Documentation, 225.

[479] 2025 PPNR Model Documentation, 226–27.

spreads. However, the addition of variables beyond the 3-month Treasury yield did not produce models that were statistically significantly improved, and resulted in coefficient instability.

The Board also considers the proposed exclusion of interest rates for foreign currencies to be reasonable. Given the lack of currency-level data on trading assets and liabilities and the number of potential market risk factors, incorporating foreign interest rates into the proposed regression model would add complexity into the model and could lead to potentially spurious estimates of interest rate sensitivities. In addition, firms are generally heterogenous in their foreign currency exposures in trading assets and liabilities. For example, firms with global operations would have large exposures to multiple foreign currencies, while smaller firms would have small or no exposures, which would make it difficult to consistently incorporate interest rates in different currencies using the regression-based framework. Given the firm-level heterogeneity in foreign currency exposure, the Board believes that this aspect of the proposed model is appropriate and consistent with the principles of consistency and comparability in the Stress Testing Policy Statement.[480]

For clarity, the final model for net interest income on trading assets and liabilities does not make specific assumptions about the reinvestment of trading assets and liabilities. The regression-based approach for net interest income on trading assets and liabilities is distinct from structural models adopted for certain other interest income and expense components that assume the reinvestment, re-origination, or repricing of assets or liabilities (e.g., the model for interest income on securities assumes reinvestment into one-year Treasury securities).

Further, as one commenter argued, a transition to a structural model based on additional data collection in FR Y-14Q may be able to reflect more accurately firm-level differences in net

[480] 12 CFR 252, Appendix B, section 1.3.

interest income on trading assets and liabilities. However, due to the complex nature of trading assets and liabilities, the structural modeling of interest income using these items would introduce substantial complexity into the model as well as impose a substantial reporting burden on firms.

3. Interest Expense on Other Borrowing

The 2026 Proposed PPNR Model would estimate interest expense on other borrowing, which includes interest expense on subordinated debt, short-term borrowing, and other interest-bearing liabilities, with a model that estimates interest expense using the contemporaneous level of the BBB corporate bond yield, the compositional mix of each firm's portfolio, and a fixed effect estimated for each firm.[481] While the Board proposed structural models for other components of interest income and expense that were previously modeled using regressions, it proposed a regression model for interest expense on other borrowing.

One commenter suggested that the Board's proposal to use a regression model to estimate interest expense on other borrowing would conflict with the 2026 Proposed PPNR Model's broader shift to structural models. The commenter stated that the Board's approach should not be implemented with respect to modeling subordinated debt and senior debt interest expense since, in general, structural models are better equipped to recognize important differences in exposures and bank business models compared to regression-based approaches. Instead, the commenter recommended that for subordinated debt and senior debt, the Board use a structural model based on CUSIP-level data, as is currently the practice for subordinated debt. The commenter added that the Board could use the structural model to project interest expense on firm-issued securities, incorporating any hedges reported on FR Y-14Q, Schedule B.2, and the

[481] 2025 PPNR Model Documentation, 230.

hedge relationships from proposed FR Y-14Q, Schedule B.3. The commenter added that, if the intent of proposed Schedule B.3, is to map all hedging relationships, the Board should consider introducing a separate schedule to report coupon debt or borrowings so that the Board can model these fair value hedge relationships adequately. Per the commenter, the Board could then use Schedule B.3 to link the accounting fair value hedges reported in Schedule B.2 to the hedged items reported in the new schedule.

This commenter suggested that, for the remaining liabilities represented in the line item for other interest-bearing liabilities, the Board should simply hold interest expense flat over the projection horizon or use a simple regression model, as such remaining liabilities span a wide range of liability types.

Another commenter stated that the proposed PPNR interest expense model does not fully capture the composition of a firm's other borrowings beyond short-term commercial paper and subordinated debt and overlooks a bank's funding mix and sensitivity to the rates a bank pays on borrowings. The commenter recommended that the proposed model be enhanced to incorporate a broader range of borrowing instruments.

After reviewing the comments, the Board has decided to adopt the model on interest expense on other borrowing as proposed. As discussed in the 2025 PPNR Model Documentation, this approach to model the multiple liability items jointly was motivated by the relative simplicity of the approach as well as the lack of further granularity to cleanly separate subordinated debt from other borrowings in items 44C and 47 in FR Y-14Q, Schedule G.2.[482] This data limitation continues to be a binding constraint for separately modelling subordinated debts. Further, the 2026 Final PPNR Model would include the portfolio composition variables

[482] 2025 PPNR Model Documentation, 230.

on commercial paper and subordinated debt to account for interest rate differences between these liability items. In addition to the portfolio composition variables, the model also would include firm-specific fixed effects to capture differences in average interest rates due to varying liability compositions. The Board believes that this model specification for interest expense on other borrowing is appropriate in the context of the available data, as it incorporates different liability mixes across firms into the model while retaining simplicity.

D. Noninterest Income and Expense Models

The 2026 Proposed PPNR Model would project noninterest income and expense using discount factor models and an efficiency ratio model, respectively, based on firm projections under the supervisory severely adverse scenario from the FR Y-14A.[483] The proposed noninterest income and noninterest expense models represent a departure from the 2025 PPNR Model, which estimated noninterest income and noninterest expense using a regression framework based on historical data from the FR Y-9C.[484]

1. Noninterest Income

The Board proposed to model noninterest income by using aggregate bank projections from the FR Y-14A schedules to produce a path of noninterest income discount factors over the projection horizon in the 2026 Proposed PPNR Model.[485] The proposed noninterest income model would estimate a path for each of ten distinct components of noninterest income: deposit-related, credit and charge card loan-related, other loan-related, sales and trading, investment banking and merchant banking/private equity, asset management, wealth management, investment services, Treasury services, and miscellaneous. Firm-level supervisory projections

[483] 2025 PPNR Model Documentation, 235.

[484] 2025 PPNR Model Documentation, 170.

[485] 2025 PPNR Model Documentation, 235.

would then be obtained by weighting the component-level projections according to a given bank's recent mix of revenues across these components.[486] The Board proposed to estimate noninterest income using firm projections because the Board has not collected historical data of sufficient granularity to precisely capture bank business practices on which net interest income depends, nor has it identified simple structural models capable of accounting for different practices across banks.[487]

a. General Comments

The Board's proposed approach to modeling noninterest income would be informed by firm projections from past stress testing cycles rather than granular data from that period.[488] One commenter argued that this approach has five significant drawbacks. First, historical projections may have been grounded in modeling methodologies that have changed substantially over the past decade. Second, historical projections may be informed by balance sheets, business lines, risk profiles, and product offerings that may no longer be relevant given both regulatory and banking industry changes over that period. Third, stress test projections may not represent an unbiased assessment of an individual firm's expected performance during stress but could instead reflect supervisory guidance and expectations. Fourth, firms' past projections may not assume a flat balance sheet, especially for credit cards, other retail loans, commercial lending, and deposits, and while the Board's proposed modeling approach would include an adjustment for different balance sheet assumptions, the adjustment would be ad hoc, would not vary across firms, and may not be consistent with the projection that a firm would make if it assumed a flat balance sheet under stress. Fifth, the use of firm projections would raise transparency concerns,

[486] 2025 PPNR Model Documentation, 235–36.

[487] 2025 PPNR Model Documentation, 170.

[488] *Id*.

as the public would not be able to assess the underlying assumptions that drive each firm's projections.

The commenter added that, in addition to these conceptual concerns, there are important data issues that would complicate the use of firm projections in the net interest income models. Per the commenter, the historical stress projections include projections for losses in the held-for-sale, fair value option, and private equity portfolios that would also be projected in other models (i.e., held-for-sale and fair value option and private equity losses would be included in the held-for-sale/fair-value option and private equity models, respectively). Because losses would be counted once in the PPNR projections and again in the portfolio-specific loss projections, the commenter alleged that the Board's proposed model specification would double-count losses from these portfolios.

The commenter recommended that the Board develop an entirely new set of data-based, granular models that would capture the full range of business lines and risk profiles across the entire industry. The commenter added that, until the Board implements a data-based modeling approach, it should use its approach in the 2026 Proposed PPNR Model with certain modifications:. it should (i) segment the discount factor models by three distinct firm classifications (U.S.-based global systemically important banks ("GSIBs"), U.S.-based non-GSIBs ("non-GSIBs"), and foreign banking organizations ("FBOs")); (ii) use a lookback period that is significantly shorter than 12 quarters when computing the discount factor projections; (iii) not use a discount factor model to project the "miscellaneous" component, but rather project a constant level with a floor of zero; and (iv) address the double-counting of losses across HFS/FVO (held for sale/fair value option) loans and PE exposures.

In response to the comments submitted, the Board is proposing a new set of models for noninterest income projection. As described in the Proposed PPNR Model, the Board proposes to combine volume-based and regression-based projections using historical data reported on the FR Y-14Q. The Board proposes to use this new noninterest income model for the 2027 stress test cycle, following receipt and review of public input. In the meantime, the Board is adopting the 2026 Proposed PPNR Model's proposed discount factor-based models with targeted modifications described below in the 2026 Final PPNR Model Documentation. The 2026 Final PPNR Model discount-factor models represent an interim approach intended to address certain concerns raised by commenters.

Relative to the proposed noninterest income models, the 2026 Final PPNR Model discount-factor models include several revisions relative to the 2026 Proposed PPNR Model: (i) differentiated group-level model specifications for GSIBs, non-GSIBs, and FBOs; (ii) the implementation of a firm-specific flatline projection approach for the miscellaneous component; (iii) component re-classifications; (iv) the elimination of the double-count of the net investment mark-to-market portion of the merchant banking/private equity component; (v) data adjustments to the syndicated lending and commercial lending items to mitigate potential double-counting; (vi) the projection of non-interchange credit and charge card revenue using firm-specific scalars estimated from historical FR Y-14Q data; and (vii) a revision to the estimation window to include only the most recent six years of FR Y-14A data. All modifications will be detailed in sections below and in the 2026 Final PPNR Model Documentation.

b. Firm Classifications

The Board's 2026 Proposed PPNR Model projects noninterest income at the firm level. That is, each model for non-interest income is specified and estimated for the full set of firms subject to the stress test, and the models do not consider different specifications or parameters for

groups of firms with similar characteristics.[489] One commenter contended that the resulting models would not be sufficiently sensitive to important differences across firms. Per the commenter, to allow for minimally sufficient heterogeneity, the Board should segment its noninterest income models according to firm classification as GSIBs, non-GSIBs, and FBOs. According to the commenter, firms in these categories have business lines, business practices, and risk profiles such that aggregating data across the three classes would not be appropriate. The commenter suggested that, in the longer term, the Board's noninterest income models should be more granular and better tailored to the activities of specific firms, but in the meantime recommended that the models be segmented using the three firm classifications.

Other commenters also argued for additional segmentation due to concerns about firm size and data limitations. One commenter stated that applying the discount factor at the industry level, and not differentiating among firms, may introduce bias as larger firms' forecasts and methodologies could have a disproportionate influence on model projections. Another commenter highlighted that Category IV firms are not required to complete some of the FR Y-14A schedules on which the proposed noninterest income and expense models are based. This commenter recommended that the Board consider further segmentation of firms to better forecast firm-specific risks, so long as any additional FR Y-14A submissions this approach would require would be limited to those necessary for the PPNR models, taking into consideration any operational burden for Category IV firms. Alternatively, the commenter stated that the Board could incorporate additional segmentation in its calculation of discount factors to capture relevant differences in size, business models, and risks across firm types.

[489] 2025 PPNR Model Documentation, 170.

In response to comments, the Board introduced firm segmentation into the discount factor models in the 2026 Final PPNR Model. The discount-factor models use data reported in the FR Y-14A schedule to construct aggregate group-level time series for each component of noninterest income for the GSIBs, non-GSIBs, and FBOs. Implementing the discount factors in this fashion reflects the different business practices and risk profiles across industry groups. The 2026 Final PPNR Models are thus better able to capture differences between industry groups, while also preventing large firms from unduly influencing projections.

c. Lookback Period

The Board's 2026 Proposed PPNR Model would estimate noninterest income by multiplying the 12-quarter average income for each noninterest income component by the projected discount factor paths.[490] Two commenters stated that the use of 12-quarter historical data and averages would not accurately reflect recent performance expectations and trends, including rate dynamics, and recommended that the Board use a shorter lookback horizon to capture prevailing market conditions. One commenter stated that the use of a 12-quarter average would produce a stale view of expected profitability, particularly when underlying portfolios experienced sustained changes. The commenter argued that, because several components of noninterest income are determined by the overall size of a firm's account base, if the Board does not use a shorter lookback period, it should scale noninterest income component projections to current business size to generate projections that better reflect the starting values for the stress test.

Two commenters criticized the proposed noninterest income models' ability to capture dynamics related to asset and wealth management, among others. One commenter argued that,

[490] 2025 PPNR Model Documentation, 235.

for noninterest income related to asset management, wealth management, deposits, and credit and charge cards, a 12-quarter average income measure would be too backward-looking and would not reflect present economic circumstances that may determine revenue generation. For example, the commenter stated that income generated by asset management and wealth management are primarily determined by assets under management ("AUM") at the jump-off point of the stress test, and not AUM or balances from two to three years prior. The commenter added that while some degree of averaging may be appropriate to resolve short-term, seasonal, or cyclical fluctuations for certain noninterest income components, a 12-quarter average would too heavily skew results to past performance. Both commenters suggested that the Board adopt shorter lookback periods to appropriately capture the current profile of each line of business for applicable components of noninterest income.

One commenter added that the Board should project noninterest income using jump-off date spot values for revenues generated based on AUM (e.g., for asset management); for business lines that may exhibit seasonality, such as sales and trading, the Board should use four-quarter averages to facilitate stability in noninterest income projections. The commenter emphasized the importance of improving accuracy for projections of wealth management noninterest expense and income, advocating for the use of jump-off date values to provide an accurate measure of wealth management earnings capacity. According to this commenter, three-year averaging understates revenue generation projections for firms with growing wealth management business lines, is unnecessary to achieve conservatism because of other modeling choices, and introduces technical and conceptual confusion when combined with the Board's SCB averaging proposal. The commenter recommended the use of jump-off quarter figures regardless of whether the Board's projections depend on revenue or fee-earning asset values.

The Board considered the comments received and determined to retain a 12-quarter lookback to project noninterest income as proposed in the 2026 Final PPNR Model Documentation. Under the 2026 Final PPNR Model, both jump-off levels and discount factors are calculated using 12 quarters of estimation data. This specification is appropriate as it balances the competing considerations of reducing volatility in projections between stress tests and reflecting recent changes in the level and composition of firms' noninterest income. As revenues are impacted by different macroeconomic variables, the model averages jump-off levels over a 12-quarter lookback period to ensure that projections are estimated using sufficient historical data so that they are robust to temporary shocks across various macroeconomic drivers.

The Board is proposing a new set of models for noninterest income projection that estimate certain revenue components based on business volume (e.g., AUM) using relevant jump-off assumptions (e.g., the use of the four-quarter mean of firm-level business volume).[491] A shorter lookback period would better align with the volume-based approach, as anchoring projections to the most recent values is consistent with the underlying mechanisms driving firm revenue generation. However, as previously explained, reducing the lookback period for the discount-factor models risks increasing the volatility in projections between stress tests. Until a new framework is finalized, the Board considers a 12-quarter lookback period to be appropriate for the discount-factor models, consistent with the stress testing principles of consistency and comparability.[492]

[491] Some of the new proposed models for noninterest income calculate projections that depend on firm-level business volume. The business volume used in the calculations is the average volume over the last four quarters before (and including) the lift-off. For more details, *see* 2027 Proposed PPNR Model Documentation for noninterest income models.

[492] 12 CFR 252, Appendix B, section 1.3.

d. Estimation Sample Period

The Board's 2026 Proposed PPNR Model proposed to estimate a regression model for each component of noninterest income for which the dependent variable is the discount factor path for that component. The regression models would be specified using an estimation sample consisting of past firm projections; this estimation sample could be updated to include additional years' data upon continued monitoring by the Board.[493]

Several commenters recommended that the Board only use more recent firm projections—those from the past five stress test cycles—for its estimation sample. One commenter argued that submissions from older cycles lack recent data, and firm models have likely improved over time. One commenter also recommended that the Board consider applying greater weight to recent FR Y-14A submissions when calibrating industry discount factors to better capture current market conditions.

In response to comments, the Board shortened the estimation window for all noninterest income discount factor models to include six years of data, from 2020–2025, instead of the original proposal of using data from 2014–2024. This modification enables the 2026 Final PPNR Model to capture recent industry practices, obviating undue influence from older business and modeling practices that are not currently relevant while retaining sufficient data to allow for statistical estimation. The Board expects to evaluate the addition of new data every year and determine the appropriateness of reestimation on an extended sample.

e. Miscellaneous Component

The Board proposed to use a discount factor model to estimate noninterest income from the "miscellaneous" category,[494] which encompasses income from international retail and small

[493] 2025 PPNR Model Documentation, 239.

[494] 2025 PPNR Model Documentation, 243.

business, insurance services, retirement and corporate benefit products, corporate/other, and immaterial business segments (rows 14T and 22-25 of FR Y-14Q, Schedule G and FR Y-14A, Schedule A.7.a). One commenter did not support this approach, arguing that the miscellaneous component encompasses a wide variety of economically disparate and distinct revenue sources that cannot be aggregated into a single component. The commenter stated that applying a single, aggregated model to these revenue sources would mask heterogeneity across firms. In the short-term, the commenter suggested that the Board use a constant projection to estimate miscellaneous noninterest income, potentially incorporating seasonal effects to improve accuracy. In the longer-term, the commenter recommended that the Board identify noninterest income sources within the miscellaneous component that could be modeled separately in order to improve firm-level heterogeneity in the supervisory stress test. Another commenter noted that the miscellaneous component encompasses a wide variety of economically disparate and distinct revenue sources, including revenue from transfer pricing arrangements.

After reviewing the comments, the Board made two revisions to the proposed discount-factor models. First, the Board adjusted the definition of the miscellaneous component. In the 2026 Final PPNR Model, the international retail and small businesses subcategory is reassigned from the miscellaneous category to the credit card interchange fees category. The Board observed that the behavior of international retail and small business income follows similar patterns as credit card interchange fee income under stressed economic conditions. This reassignment thus enables the discount-factor models to better capture characteristics of the international retail and small businesses subcategory.

Second, in the 2026 Final PPNR Model, the Board decided to project noninterest income in the miscellaneous category by using a firm-specific flatline projection approach instead of the

proposed discount-factor model. Under this approach, the miscellaneous component is held constant over the projection period at a level equal to the average of miscellaneous noninterest income for each firm over the 12-quarter base period. Holding the component fixed over the projection horizon would more accurately estimate noninterest income from the revenue sources included in the miscellaneous category because they are generally insensitive to economic stress.

f. Double-Counting

The 2026 Proposed PPNR Model estimates losses to firms under stress, including by projecting sales and trading noninterest income and investment banking and merchant banking/private equity noninterest income, among others.[495] The Board separately models losses to firms from loans held for investment under a fair value option or held for sale in the Fair Value Option Model and from private equity in the Private Equity Model. The Board also uses a global market shock component (GMS) to simulate severe market distress over a very short time period, and estimates losses to firm trading book positions under the GMS in the Trading Profit and Loss Model.

Several commenters asserted that the 2026 Proposed PPNR Model double-counted projected losses under stress, including (1) for held-for-sale/fair value option loans and private equity exposures and (2) across the PPNR and GMS calculations. One commenter also stated that the reinvestment assumption for certain securities, trading losses, trading income, and expenses resulted in double-counted losses.

Commenters stated that the proposed noninterest income model could double-count projected losses on held-for-sale/fair value option (HFS/FVO) loans and private equity exposures. Commenters recommended that the Board modify the 2026 Proposed PPNR Model

[495] *See* 2025 PPNR Model Documentation, 211–12.

to avoid double-counting. One commenter stated that the Board should either request a one-time special data submission from firms to separate FVO loan and private equity mark-to-market losses by PPNR line item historically or otherwise ensure that any double-count is mitigated by adding FVO loans and private equity mark-to-market losses back into non-interest revenue projections. Another commenter recommended that the Board exclude HFS/FVO loans and private equity losses from PPNR, as they may already be reflected in the Board's projection of "other losses / gains." Additionally, one commenter recommended that, in the specific case of private equity exposures, the Board isolate and remove projected losses from firm projections by excluding the projection associated with item 17 on Schedule A.7.a of the FR Y-14A. However, the commenter noted that this method would not be possible for HFS/FVO loan projections (which may be reported in items 15, 16, and 18).

One commenter encouraged the Board to address double-counts between the 2026 Proposed PPNR Model and other models that apply to institutional markets businesses. In addition to recommending changes to the Board's treatment of HFS/FVO loans and PE losses in the 2026 Proposed PPNR Model, the commenter recommended that the proposed sales and trading methodology be replaced with a simple four-quarter trailing approach.

Two commenters recommended that the Board consider recalibrating the PPNR model to avoid double-counting GMS losses. One commenter recommended that the Board explicitly and directly include an expanded methodology to eliminate a double-count of losses in the PPNR and GMS calculations. The other commenter stated that the GMS already captures trading losses due to market factor changes in a severely stressed environment. This commenter also recommended that the Board consider recalibrating trading revenues in the noninterest income component of PPNR to remove mark-to-market losses.

The Board considered these comments and the types of risks captured across the stress test models. In the 2026 Final PPNR Model, the Board eliminated the net investment mark-to-market portion of noninterest income from merchant banking/private equity in the discount factor framework. The gains and losses from merchant banking and private equity are modeled and projected by the Fair Value Option Model and the Private Equity Model (see the Market Risk Model Documentation for more information on these two models) due to their periodic marking to market. Removing the mark-to-market portion of income from the noninterest income framework would mitigate a potential double-count of gains and losses in the stress test.

In addition, the Board also made a modification to mitigate duplicate measurements that could occur within the commercial lending line item and the syndicated/corporate lending portion of the investment banking component. It is possible that firms that report FR Y-14A projections for the severely adverse scenario include mark-to-market losses in the line items for commercial lending and syndicated/corporate lending under investment banking.
The modified approach adjusts the FR Y-14A and FR Y-14Q data that is used to construct the relevant discount factors. Specifically, the 2026 Final PPNR Model applies a floor of zero to the firm-level data for the commercial lending and syndicated/corporate lending line items before the information is aggregated for discount-factor calculations. This adjustment eliminates outsized losses that firms may report in their FR Y-14A projections due to the market stress associated with the severely adverse scenario.

While some commenters stated that the Board's proposal could potentially double-count losses through projections of noninterest income on sales and trading in the noninterest income model and the projections of trading losses under the global market shock (GMS) component, the Board views these components as designed to assess different risks. The GMS is

a hypothetical market shock applied instantaneously to banks' trading positions. It is designed to simulate severe market distress occurring over a very short period and its full effect is realized in the first quarter of the projection horizon in the supervisory stress test. As stated in the Stress Testing Policy Statement, the GMS component is an exogenous component of the supervisory stress scenarios that is independent of the macroeconomic and financial market environment specified in those scenarios, and estimates of losses from the GMS component are therefore considered in addition to losses under the macroeconomic scenario. By contrast, noninterest income projections for trading revenue assess a bank's capacity to generate revenue from trading activities over the projection horizon. Noninterest income estimates represent ongoing trading revenues, such as fees, bid-ask spreads, and market-making income, and thus differ from projections derived from a one-time market shock to the trading book. The Board does not view the noninterest income on trading revenue model as duplicating the measurement of the GMS trading losses, and considers the proposed framework to be appropriate and consistent with the goals and structure of the GMS component as described in the Stress Testing Policy Statement.[496]

g. Granularity in Noninterest Income Components

As discussed above, the Board proposed to model noninterest by using aggregate bank projections from the FR Y-14A schedules to produce a discount-factor path representing the cumulative percentage growth of 10 noninterest income components over the projection horizon.[497] Firm-level supervisory projections would then be obtained by weighting the component-level projections according to a given bank's recent mix of revenues across these

[496] 12 CFR 252, Appendix B, section 2.5.

[497] 2025 PPNR Model Documentation, 170.

components. The Board proposed to estimate noninterest income using firm projections because the Board has not collected historical data of sufficient granularity to precisely capture bank business practices on which net interest income depends, nor has it identified simple structural models capable of accounting for different practices across banks.

Two commenters expressed concern with the level of granularity in the Board's proposed noninterest income models. One commenter stated that the proposed level of granularity would not adequately capture the diversity of business models across the banking industry. Both commenters recommended that the Board implement additional disaggregation in the noninterest income models—especially for broad noninterest income categories that span different types of loans—to generate more representative predictions.

Both commenters expressed concern about the breadth of the other loan-related and miscellaneous noninterest income categories. One commenter noted that the discount factor applied to the other loan-related noninterest income category is derived from broad industry data and could misrepresent a firm's business model and income sensitivity to the macroeconomic variables used in the model, particularly under stress. Specifically, the commenter stated that the other loan-related noninterest income category would include interchange and membership fees, which may not be impacted as quickly as income from origination-driven businesses under stress. The commenter recommended that the Board disaggregate broad categories like other loan-related noninterest income or miscellaneous income into loan types (e.g., auto, commercial, small business, etc.) for purposes of projecting noninterest income. Another commenter recommended that the Board separately project each FR Y-14 item within the other loan-related noninterest income category. The commenter also stated that the Board should consider whether to incorporate additional granularity in projecting miscellaneous noninterest income, given that

this component also includes a wide range of economically distinct revenue sources that behave dissimilarly under stress. If the Board chooses to do so, the commenter recommended that the Board should reassess the use of scaling balances for specified components to control for fluctuations in noninterest income across firms due to balance sheet dynamics and despite differences in individual firms' balance sheet projections.

In response to comments about the level of granularity, the Board separated noninterest income from credit and charge cards into two components: one for interchange revenue and one for non-interchange revenue. The modified approach models these two components separately. The interchange portion of credit and charge cards are modeled on a standalone basis using a discount factor, while the non-interchange portion of credit and charge cards is modeled using a historical scalar unique to each firm. The historical scalar is equal to the average ratio of interchange revenue to non-interchange revenue for credit and charge cards over the 12-quarter base period. The Board considers the historical scalar is well suited to capture the high degree of firm-level heterogeneity present in this component. This modification better captures the different natures of credit and charge card revenue components and enhances the Board's ability to incorporate firm heterogeneity into the model as the projection of non-interchange credit and charge revenue will be specific to each firm.

While some commenters recommended that the Board introduce further granularity in its projection of noninterest income, the Board is not adopting these recommendations for the 2026 Final PPNR Model. In determining the categories through which to measure noninterest income, the Board considered the following: the broad categories (asset management fees, investment banking fees, trading, etc.) that large banks themselves typically use in their communications with investors to report noninterest income; the ability to control for revenue changes that result

from balance sheet dynamics to ensure that projections are consistent with the Board's constant balance sheet assumption when necessary; and the categories that react distinctly to macroeconomic factors based on historical FR Y-14Q data and projection data from the FR Y-14A. The Board also sought to avoid creating categories in which most of the revenue is generated by a small number of firms, because the small sample size would increase the variance of the regression estimates needed to calculate discount factor paths, and thus produce higher variability of stress test projections over stress testing cycles. The Board considers the noninterest income categories adopted for the 2026 Final PPNR Model to be appropriate in light of these considerations.

h. Sales and Trading

The Board proposed to estimate noninterest income from sales and trading using a discount-factor model. The proposed model would estimate the industry-level discount factor using the quarterly change in the Dow Jones Total Stock Market Index to represent changes in equity market conditions.[498] The Board proposed an alternative regression model specification for use if it did not adopt the proposed discount-factor model in 2026.[499] The alternative proposal would model noninterest income from trading revenue using one regression model for all firms—without distinguishing between large and small firms or lines of business—that would depend on the change in the natural logarithm of the Dow Jones index and draw from the FR Y-9C pro forma data.

Two commenters raised concerns with the Board's proposed noninterest income from sales and trading discount-factor model. One commenter stated that the proposed approach

[498] 2025 PPNR Model Documentation, 240–41.

[499] 2025 PPNR Model Documentation, 99.

would rely on bank-specific model forecasts from the FR Y-14A dating back to 2015, inclusive of periods in which banks incorporated significant supervisory feedback into their models. The commenter recommended that the Board specify separate models for GSIBs and other banking institutions to effectively capture the heterogeneity in their product mixes and behavior without introducing undue complexity. Alternatively, the commenter recommended that the Board could incorporate fixed effects into the existing regression model. Another commenter noted that trading revenue for GSIBs increased during periods of stress in 2020, 2023, and 2025. The commenter suggested that the Board review its sales and trading models to distinguish between mark-to-market losses and profit and loss ("P&L") from new positions so that P&L from new positions could incorporate the U.S. volatility index ("VIX") as a driver of revenue. The commenter suggested the use of Volcker rule-related data, which would enable the specification of a projection model separating mark-to-market losses from P&L from new positions more accurately.

One commenter stated that it disagreed with the Board's proposed alternative regression model. The commenter stated that the relationship between trading revenues and stock market returns has diminished following post-crisis regulatory reforms like the Volcker Rule. The commenter asked that the Board consider holding firm-specific revenues flat based on a three-year average derived from the FR Y-14Q, Schedule G items 5 and 18. The commenter argued that the use of this average would maintain individual firm revenue drivers, uphold the principle of simplicity, and help address the potential double-counting of losses across the GMS and Trading Revenue Models, as discussed further above. The commenter also recommended that, in the longer term, the Board leverage industry-wide trading volume data (e.g., Volcker Rule

submissions) to develop a regression model for trading revenues, attributing revenues to firms proportional to their historical market share according to their FR Y-14Q revenues.

The Board has considered the comments submitted and has determined to adopt the proposed discount-factor models for noninterest income from sales and trading with modifications in the 2026 Final PPNR Model Documentation. As described above, the Board introduced differentiated group-level model specifications for GSIBs, non-GSIBs, and FBOs. Under this proposal, different macroeconomic variables are selected for each group, including a constant discount factor ("DF")[500] for non-GSIBs and VIX as a macroeconomic driver for FBOs. While some commenters recommended applying constant projections uniformly across firms, the Board considers the modified approach with tailored specifications to be appropriate, as it better reflects firm heterogeneity while incorporating revenue dynamics observed in the data. Also, as stated above, the Board revised the estimation window to include the most recent six years of FR Y-14A data. Using the shortened estimation window, the modified models capture revenue dynamics in firm projections in the post-crisis regulatory environment. These modifications mitigate the concerns raised by commenters and result in an improved and appropriate approach.

i. Transfer Pricing and Revenue Sharing

As discussed previously, the Board proposed to model noninterest income by using aggregate bank projections from the FR Y-14A schedules to produce a path of noninterest income discount factors over the projection horizon. Firm-level supervisory projections would then be obtained by weighting the component-level projections according to a given bank's

[500] In this context, a constant DF means a model with no macroeconomic independent variable in its specification. The sales and trading non-GSIB model is one of several noninterest income models that has no macroeconomic independent variables.

recent mix of revenues across these components.[501] The Board proposed to estimate noninterest income using firm projections for ten distinct components of noninterest income because the Board has not collected historical data of sufficient granularity to precisely capture bank business practices on which net interest income depends, nor has it identified simple structural models capable of accounting for different practices across banks.

Three commenters raised concerns about the treatment of transfer pricing revenues by the proposed noninterest income models. The commenters argued that the proposed generalized discount-factor models would generate outsized stress losses for FBOs with material transfer pricing revenues because they do not sufficiently incorporate the impact of cost reimbursement, revenue-sharing, or transfer-pricing arrangements that international holding companies ("IHCs") often establish with their foreign parents. The commenters stated that noninterest income from transfer-pricing arrangements is relatively stable in stress and thus would be underestimated by the proposed noninterest income models. One commenter noted that transfer-pricing arrangements are generally legally binding agreements that govern the allocation of revenues, costs, and tax attributes; another commenter highlighted that they are negotiated on an arm's length basis between IHCs and their non-subsidiary affiliates, are legally enforceable, and cannot be renegotiated without the agreement of both parties.

Two commenters stated that the proposed models would be heavily skewed by the inclusion of U.S. GSIBs in the underlying historical data, as GSIB noninterest income is more sensitive to stress than that of IHCs because of transfer-pricing arrangements. One commenter argued that transfer-pricing revenues are less impactful for U.S. firms due to the application of the stress test at the top-tier of consolidated organizations, but can significantly affect the

[501] 2025 PPNR Model Documentation, 170.

revenue and expense line items for IHCs. This commenter stated that the proposed discount factor models would subject transfer-pricing revenue to shocks of the same size as other, more volatile revenue components, resulting in a more severe discount factor estimation for noninterest income from transfer-pricing revenue than is supported by performance during actual stress periods. The commenter represented that an internal analysis showed that the average implied discount factor for non-interest revenue is 60–70 percent for U.S. GSIBs but 85 percent for FBOs, though the commenter did not describe the methodology for this analysis.[502] Another commenter argued that, while the discount-factor approach would simplify the 2026 Proposed PPNR Model framework, it would overlook the benefits, stability, and significant impact of IHCs' transfer-pricing arrangements and thus fail to fully capture heterogeneity among firms.

Two commenters recommended that the Board adopt interim and long-term adjustments to the proposed noninterest income models to reflect the distinct and stable nature of transfer-pricing arrangements. One commenter recommended disaggregating the proposed miscellaneous income category of noninterest income into more granular subclasses to better reflect revenue heterogeneity and the effects of transfer-pricing arrangements. In the short-term, the commenters recommended modifying the proposed models to disaggregate projections according to firm classification (e.g., for U.S. GSIBs, non-GSIBs, and FBOs). Additionally, both commenters recommended that the projection of noninterest income from the miscellaneous category remain constant over the stress horizon until models and data collection for a more granular analysis are developed. This approach would be similar to the 2025 PPNR Model's estimation of all other noninterest income, which is modeled as an eight-quarter median.

[502] In this context, a discount factor of 60-70% implies a decrease in revenue of about 30-40% from lift-off, while a discount factor of 85% implies a decrease of 15%.

Additionally, one commenter recommended that the Board adopt a modified version of the proposed discount-factor noninterest income model with a shorter lookback period and another commenter expressed support for the modifications suggested by other commenters for changes in the short term to the proposed models.[503]

In the longer term, three commenters suggested that the models for non-interest revenue and expenses should be redeveloped to better address firm-specific attributes and recommended that the Board collect additional data on transfer pricing and revenues. Two commenters stated that the Board should create a model specific to IHCs and their transfer-pricing revenues and expenses, and suggested either (1) forecasting transfer-pricing revenue through a distinct discount factor model that would account for differences in firm size and activities, or (2) using firm-specific overlays, which would be made public or disclosed to firms, to account for transfer-pricing revenues. In connection with this recommendation, the commenters advised the Board to amend the FR Y-14 to collect data on transfer-pricing arrangements, with one commenter recommending that the Board collect more firm-specific information generally.

As noted above in Section VI.D.1.b, the Board is introducing firm segmentation into the proposed noninterest income models. The 2026 Final PPNR Model's discount-factor models segment firms into three groups, GSIBs, non-GSIBs, and FBOs. This segmentation better captures the specific effect of transfer pricing on FBOs, since the discount factor and parameters for FBOs will be estimated using only firms in this group; the same will be true for GSIBs and

[503] The short-term changes suggested by other commenters are that the Board (i) segment the discount factor models by three distinct firm classifications (U.S.-based GSIBs, U.S.-based non-GSIBs, and FBOs); (ii) use a lookback period that is significantly shorter than 12 quarters when computing the discount factor projections; (iii) not use a discount factor model to project the "miscellaneous" component and instead project a constant level with a floor of zero; and (iv) address the double-counting of losses in HFS/FVO loans and PE exposures.

non-GSIBs. The Board is thus implementing a discount-factor model that accounts for differences in firm size and activities, as suggested by commenters.

In addition, the 2026 Final PPNR Model uses a flatline approach to estimate noninterest income for the miscellaneous category. Since some transfer-pricing revenue is reported under the miscellaneous line item, the use of flatline projections will more accurately capture the stability of transfer-pricing revenue. These modifications mitigate the potential for the discount-factor models to produce overly conservative projections because of their treatment of transfer-pricing arrangements. The Board decided not to collect additional data on transfer-pricing arrangements since the modifications to the discount-factor model are appropriate and help to mitigate the issues raised by commenters, consistent with the stress testing principle of simplicity.

j. Use of firm projections

The Board's proposed discount factor models use firm projections from the FR Y-14A to estimate noninterest income.[504] One commenter argued that transitioning to models that depend on banks' projections raises new concerns regarding consistency and excessive conservatism in model inputs. The commenter stated that the proposed models would be too severe because they impose conservative model specifications onto firm projections, which are already conservative.

After considering the comment, the Board has determined to retain the use of firm projections from FR Y-14A in its discount-factor models as proposed in the 2026 Final PPNR Model. As described in the 2025 PPNR Model Documentation, the discount-factor models estimate the average path of firm-projected noninterest income fluctuations based on

[504] 2025 PPNR Model Documentation, 235.

macroeconomic variables specified by the stress test scenario.[505] The use of an average income path is not expected to impose any additional conservatism on its estimates of noninterest income.

Another commenter recommended that the Board consider incorporating firm projections from the baseline scenario in addition to the severely adverse scenario when calibrating noninterest income models. The commenter stated that including baseline data would provide a more balanced view of firms' expected performance across economic conditions, reduce reliance on stress-only dynamics, and improve the robustness of discount-factor estimation.

The Board has determined not to include firms' baseline scenario projections in the estimation of discount factors. The purpose of the discount-factor models is to project income under hypothetical severely stressed scenarios. Including firm projections only from severely adverse scenarios ensures that the proposed discount-factor models capture noninterest income dynamics under severe stress. In addition, initial analysis found that the use of firms' baseline scenario projections would not enhance model sensitivity to macroeconomic factors.[506]

One commenter recommended that the Board directly input bank-specific FR Y-14A forecasts of noninterest income in its PPNR forecasts. The commenter also suggested that the Board consider modifying its modeling approach for certain components of noninterest income (e.g., by estimating noninterest income from sales and trading using trading volume to reflect the

[505] *See* 2025 PPNR Model Documentation, at 229–37.

[506] The Board compared the results of discount-factor estimation using two approaches: (i) using only firms' projections for the severely adverse scenario and (ii) using firms' projections for both the baseline and severely adverse scenario. The second approach naturally offers a larger sample of data for estimation. The Board used the same sample of firms and years of firm data submissions in the two analyses. The Board found that discount factors estimated under the second approach generally had coefficients for macroeconomic variables that were usually of lower magnitude, and less frequently statistically significant, compared to the first approach. This analysis suggests that increasing sample size does not improve macroeconomic sensitivity or the ability of the models to forecast income under stressed economic conditions.

impact of post-crisis regulatory reforms on broader market structure; see a more detailed discussion above, in Section VI.D.1.h Sales and Trading, of this same document. The commenter stated that because noninterest income is often not anchored to the balance sheet (e.g., investment banking fees, markets client facilitation revenue, and trade-based revenue), some of the current FR Y-9C based models are not conceptually sound and do not accurately capture the macroeconomic sensitivity of these income streams. The commenter stated that, although using bank-specific FR Y-14A forecasts of noninterest income would result in a less independent PPNR Model, the Board has made similar choices when data availability limited the Board's ability to consistently capture risk sensitivity across firms.

As previously stated in the 2025 PPNR Model Documentation,[507] in constructing the proposed models for noninterest income and noninterest expense, the Board weighed the tradeoff between the Stress Testing Policy Statement principles of independence, transparency, simplicity, and stability. Directly inputting bank-specific FR Y-14A forecasts to estimate individual projections would be expected to further depart from the principle of independence, from a supervisory perspective, without meaningfully improving the transparency, simplicity, or stability of the noninterest models. Additionally, since FR Y-14A data is confidential supervisory information, using bank-specific FR Y-14A data would severely limit the ability of the Board to make the results of the supervisory stress test public. The use of bank-specific FR Y-14A data would also pose technical challenges for firms that do not participate in the FR Y-14A data collection (e.g., Category IV firms). Given these considerations, the Board chose not to use bank-specific FR Y-14A forecasts as input for individual projections in the 2026 Final PPNR Model.

[507] 2025 PPNR Model Documentation, 168.

k. Flat Balance Sheet Assumption

The flat balance sheet assumption is a key modeling constraint in the Board's stress tests that requires banks' balance sheets to remain at their starting size throughout the projection period.[508] Under this assumption, the Board assumes that firms maintain flat balance sheets during the projection horizon. The Board proposed to model noninterest income using a discount-factor model that relies on firm projections from the FR Y-14A, which features dynamic balances. One commenter stated that the flat balance sheet assumption may be inconsistent with the dynamic balances reflected in FR Y-14A submissions for noninterest revenue and noninterest expense. The commenter asked that the Board align assumptions across models or clarify why they differ.

The dynamic balances reflected in FR Y-14A firm projections are not inconsistent with the flat balance sheet assumption. As described in the 2025 PPNR Model Documentation, the Board uses scaling balances for certain components to control for fluctuations in noninterest income across firms due to balance sheet dynamics. For example, loan-related noninterest income may fall in the projection period because firms project lower balance amounts, not because they cut fees. To account for this, and to make the projection path consistent with the assumption that firms maintain constant balance sheets over the projection horizon, the Board divides the revenue measure by an appropriate scaling balance where available.[509] This approach is appropriate and consistent with the flat balance sheet assumption.

As stated in the Stress Testing Policy Statement, the aim of supervisory stress testing is to assess whether firms are sufficiently capitalized to absorb losses during times of economic stress,

[508] 12 CFR 252, Appendix B, section 2.7.

[509] As described in the 2026 Final PPNR Model Documentation, scaling balances are applied to four components of noninterest income: deposit-related, credit and charge card interchange, other loan-related, and sales and trading. The remaining components are assumed to not require scaling balances.

while also continuing to lend to households and businesses.[510] The assumption that a balance sheet is consistently maintained allows supervisors to evaluate the health of the banking sector to withstand stress without creating a credit contraction and substantially increasing the severity and duration of an economic downturn. The flat balance sheet assumption in the Final PPNR Model is consistent with the Stress Test Policy Statement's credit maintenance principle and the objectives of the stress test.[511]

l. Negative Jump-Off Values

The Board proposed to estimate noninterest income with discount-factor models that use revenue and scaling balances from the base period, as estimated over a trailing 12-quarter period, as inputs.[512] One commenter recommended that the noninterest income models should floor revenues at zero, as starting negative revenues would produce unintuitive results. The commenter stated that this approach would be conservative since material negative revenue values can be driven by countercyclical items (e.g., debit valuation adjustments) that would be expected to become positive under stress.

After reviewing the comment, the Board declines to floor revenues at zero in the noninterest income models. The Board believes that the potential countercyclical behavior described in the comment is already addressed by the proposed approach. As discussed in Question A197 of the proposed model documentation, in cases where the starting revenue amount is negative, applying estimated discount factors in the same way as positive jump-off

[510] 12 CFR 252, Appendix B, section 2.7.

[511] The flat balance sheet assumption is also discussed in Section V.A, VI.B.5, and VI.E.

[512] 2025 PPNR Model Documentation, 244.

cases would produce a countercyclical result, as the projected revenue amount would increase as it approaches zero.[513]

The Board also notes that negative jump-off revenue is expected only under exceptional circumstances. Under the 2026 Final PPNR Model, jump-off values are calculated as averages over a 12-quarter lookback period. Averaging smooths temporary downward shocks and reduces the likelihood of negative starting revenues.

m. Clarification of Model Specifications

The Board's proposed discount-factor models for noninterest income relate the discount factor to various macroeconomic variables and apply scaling balances to control for fluctuations in noninterest income across firms due to balance sheet dynamics and to generate predictions consistent with the constant balance sheet assumption.[514] One commenter requested confirmation of the units and scaling for the independent variables used in the proposed noninterest income regression models, specifically whether the quarterly change in the unemployment rate, spread of the BBB bond index yield to the 10-year Treasury yield, and quarterly change in the 10-year Treasury yield are expressed in decimal or percentage form. Another commenter stated that the Board did not provide sufficient rationale to support the use of scaling balances for some PPNR components but not others (e.g., miscellaneous noninterest income).

The Board has revised the 2026 Final PPNR Model Documentation to clarify the model specifications. Specifically, the quarterly change in the unemployment rate, the spread of the BBB bond index yield to the 10-year Treasury yield, and the quarterly change in the 10-year

[513] The projected revenue amount starts at a negative value for the first quarter of projection. For the following quarters, the projected revenue remains negative but decreases in magnitude following the application of the discount factor method. Consequentially, projected revenue increases in value as it approaches zero.

[514] 2025 PPNR Model Documentation, 244.

Treasury yield are all expressed in percentage form. The Board also revised the 2026 Final PPNR Model Documentation to support the use of scaling balances for noninterest income models.

n. Future Revisions to the PPNR Models

Several commenters recommended that the Board reformulate and repropose large portions of its noninterest income models or the noninterest income models in their entirety. One commenter suggested that the Board implement a modified version of the proposed discount-factor models on a temporary, interim basis but did not view the discount-factor approach as appropriate for use on a permanent basis. The commenter recommended that the new models satisfy a set of high-level modeling recommendations.[515]

First, the commenter suggested the use of more detailed and granular categories in the Board's noninterest income models to better capture the range of different business models, practices, and risk profiles across firms. For example, some firms may have significant home lending portfolios but smaller commercial lending portfolios, which may react differently under stress. According to the commenter, in certain cases, greater granularity could be achieved by leveraging existing data already collected as part of the FR Y-14 process. For example, the Board's 2026 Proposed PPNR Model would specify a single model for other loan-related noninterest income, including income generated by mortgages and home equity, other retail and small business lending, and commercial lending—all of which are already included as individual categories in the FR Y-14 schedules. According to the commenter, disaggregating the proposed

[515] According to the commenter, the Board should (i) consider sufficiently detailed and granular noninterest income categories that appropriately capture the range of different business models, practices, and risk profiles within the banking system; (ii) base noninterest income models on granular and specific data that directly relates to the observed empirical behavior of the revenue activity of interest; (iii) specify noninterest income models as either structural or regression-based; (iv) jointly model the behavior of net interest income and noninterest income for sales and trading; and (v) substantively resolve any double-counting of losses in HFS securities, FVO loans, and private equity exposures.

noninterest income models into more specific categories would better reflect the various economic drivers of the underlying income streams and produce more precise projections.

In other cases, the commenter suggested that the Board may need to collect additional data to generate an appropriately granular set of noninterest income categories. As an example, the commenter stated that the transfer-pricing arrangements IHCs often enter into with their foreign parents have unique characteristics and are resilient in stress. In the Board's proposed models, transfer-pricing revenue would be distributed across three separate categories: noninterest income from (i) sales and trading, (ii) investment banking and private equity, and (iii) miscellaneous income. Because the Board proposed to use a discount-factor approach for all three of these categories, transfer-pricing revenue would be modeled alongside more volatile revenue components. Accordingly, the commenter recommended that the Board create a new noninterest income category to reflect the lower risk profile and other unique characteristics of transfer-pricing revenue.

The commenter asserted that the underlying data used to estimate a model and generate projections should accurately reflect the empirical properties of the activity being considered. In the commenter's view, the FR Y-9C data that informed the 2025 PPNR Model's noninterest income models was too aggregated and volatile to be useful for stress test modeling. The commenter noted that FR Y-14Q data is better suited to the stress test models and should be used over FR Y-9C data or projection-based data sources like the FR Y-14A. The commenter added that in some cases, the recommended approach to noninterest income models may require the collection of additional data on certain revenue-generating activities (e.g., transfer-pricing revenues, AUM by asset class, etc.). In these cases, the commenter suggested that the Board

should collect additional data similar to the collection of existing noninterest income items on the FR Y-14Q.

The Board proposed discount-factor models for noninterest income using simple univariate regressions.[516] One commenter noted that, in Board's Proposed 2026 PPNR Model, the preference for simple, univariate models is often supported by reference to the Board's modeling principle of simplicity. The commenter stated that, while simplicity is an appropriate principle for model development, it should not have an outsized influence on model specification. In the commenter's view, many noninterest income-generating activities are, by their nature, complex and responsive to a range of economic factors. The commenter recommended that the noninterest income models instead be specified either as structural models or regression-based models that clearly link the underlying revenue-generating activity to a conceptually sound set of drivers that are sufficiently diverse to capture applicable heterogeneity. The commenter argued that the use of drivers would be consistent with the Board's modeling principles of robustness and stability and help avoid inaccurate or inconsistent estimations.

The commenter also suggested that the Board's proposal to separately model interest income, interest expense, and noninterest revenue from sales and trading activities may not effectively capture the natural offsets between each of these components. For example, for a total return swap that is hedged by a long stock, a decline in interest rates, which typically occurs in stress test scenario, may lower noninterest income but simultaneously lower trading funding costs. As a result, according to the commenter, modeling net interest income and noninterest revenues jointly would explicitly account for this and related offsets. The commenter added that the joint modeling of all sales and trading components would improve the parsimony of the

[516] 2025 PPNR Model Documentation, 235.

models and would be consistent with the Board's modeling principle of simplicity. Additionally, the commenter argued that this approach would allow the Board to simplify the associated data collection.

One commenter encouraged the Board to redevelop and repropose the PPNR noninterest revenue models based on the underlying characteristics of specific line items. In particular, the commenter recommended that the Board consider leveraging historical FR Y-14Q data to develop both regression-based and structural noninterest income (other than market income) models tailored to the characteristics of different revenue types and incorporating relevant macroeconomic variables and seasonality factors. The commenter asserted that balance sheet-driven revenues would benefit from an approach that incorporated the relevant balances and appropriate macroeconomic variables, while transaction-driven revenues could be modeled based on quarter-over-quarter changes in revenue and relevant macroeconomic variables. For other revenue categories with low historical volatility or significant modeling complexity, the commenter recommended a conservative structural approach.

The commenter also encouraged the Board to consider developing a total net revenue model for the markets business. The commenter recommended estimating total net revenue for the markets business using historical FR Y-14Q data to produce more robust projections. The commenter additionally recommended that the Board consider segmenting firms according to whether they are U.S. GSIBs. Within GSIBs, the commenter recommended the Board incorporate relevant market share dynamics across the fixed income and equities lines of business using firm-specific macroeconomic drivers.

Another commenter recommended that the Proposed PPNR Model use fee-earning client asset values to predict noninterest income because they are the most reliable measure of a

wealth-management business line's earnings capacity. The commenter stated that market-driven changes in asset values can be estimated by applying the relevant macroeconomic driver, such as the Dow Jones Index or BBB spreads, to the jump-off date asset values. Further, the commenter recommended that the 2026 Proposed PPNR Model adjust client asset values using firm-specific fee-earning asset net inflow and outflow estimates to improve projection accuracy. The commenter asserted that the Board could use existing data to create new models for noninterest income from wealth management.[517]

In response to comments, the Board is proposing a set of model changes to project noninterest income, as described in the Proposed PPNR Model. This proposed framework uses a volume-based approach segmented using granular information from the FR Y-14Q to reflect heterogenous business activities. The volume-based models are motivated by the observation that noninterest income across many business lines is derived from fees based on the volume of business conducted. In instances in which relevant volume data is not available, the Board proposes to model noninterest income components using either a regression, a flatline or a distribution-based haircut approach.

The new framework would rely on existing data currently collected by the Board. While some commenters suggested the collection of additional data on certain noninterest income components by expanding the FR Y-14, the enhancements included in the 2027 Proposed PPNR Model are expected to be sufficient to meaningfully address the concerns raised by commenters without the need for new or revised data collections that would increase reporting burden.

[517] According to the commenter, the Board could forecast *f*ee-based revenues using firm-specific revenue-to-assets ratios from FR Y-14Q reporting line items and PPNR calculations.

The new framework directly addresses the concerns raised by commenters. First, the Proposed PPNR Model segments firms by categorization as U.S. GSIBs, non- GSIBs, and FBOs. Second, the Proposed PPNR Model uses FR Y-14Q data to develop structural and regression-based models where possible. Third, the Board is proposing to use macroeconomic drivers in regression and structural models. Fourth, the Proposed PPNR Model uses more granular data to accurately represent the characteristics of underlying activities in the projection of noninterest income. Fifth, the Board is proposing a volume-based approach that treats balance-sheet revenues differently from transaction-driven revenues where possible. Sixth, the Board is proposing flatline models and segmenting FBOs to better project transfer-pricing revenue. Finally, the Proposed PPNR Models model investment services noninterest income using a volume-based approach that better captures the specific characteristics of such income. In the Proposed PPNR Model, the Board is also seeking public input on whether changes to data collections are warranted to further enhance the proposed model framework.

Details of this proposal, including a discussion of alternatives, are described in the separate Proposed PPNR Model. Pending the outcome of the public input process, the Board would replace the noninterest income models described in the 2026 Final PPNR Model Documentation with these proposed models for the 2027 stress test cycle.

2. Noninterest Expense Efficiency Ratio Model

The Board proposed to estimate noninterest expense, excluding operational risk, as a single component using the efficiency ratio (the ratio of noninterest expense to the sum of net interest and noninterest income).[518] This approach rests on the observation that after controlling for variation in the mix of business activities, banks tend to predict an expense ratio path under

[518] 2025 PPNR Model Documentation, 246.

stress that is stable across firms and over stress testing cycles. The Board proposed to estimate the efficiency ratio path using an industry model of firm projections from previous stress testing exercises. The industry model would then be used to project a given bank's noninterest expense using income projections from the other proposed supervisory models and the bank's revenue mix across 11 business lines in the period before the start of the projection horizon. The Board's approach leverages long-term relationships between a bank's income and expense streams. For noninterest expenses broadly, analysis of banks' historical data as well as of their projections submitted via the FR Y-14A suggested a stable relationship with net interest income and noninterest income over time.[519] This approach also reflects the business practice of managing net revenues in aggregate, in addition to managing individual revenue and expense components.

The Board has determined to adopt the proposed model for noninterest expense with some modifications. The final model incorporates the following revisions to the proposed efficiency ratio approach: (1) the 11 revenue categories are consolidated into three streamlined groups—market-based activities, consumer banking, and miscellaneous—to facilitate more reasonable projections for firms with concentrated revenue streams while appropriately capturing heterogeneity in cost structures and revenue dynamics across business lines; (2) incorporating interaction terms between the time trend variable and revenue shares to generate firm-specific slopes and allow for greater heterogeneity in projection paths; (3) reconfiguring the model to estimate changes in the efficiency ratio relative to the jump-off period rather than absolute efficiency levels, thereby anchoring projections to each firm's recent performance; (4) shortening the estimation sample to include only post-2020 firm projections to better reflect recent experience and projections from more mature models; (5) reducing the lookback window from

[519] 2025 PPNR Model Documentation, 171.

five years to three years to calculate revenue shares and efficiency ratio levels at jump-off, enabling the model to more accurately reflect firms' recent business mixes while avoiding excessive year-over-year volatility; (6) excluding one-time, non-recurring expenses from historical data, consistent with the Board's current data adjustment process; (7) adjusting for double-counting in PPNR consistent with the modified noninterest income model methodology to mitigate double-counting within the overall stress testing framework; and (8) mitigating the influence of outliers by removing the top and bottom one percent of observed efficiency ratio values across the sample. All modifications are intended to address concerns raised by commenters and will be detailed in sections below.

a. Lookback Period

The Board's proposed net interest expense model would use a five-year lookback window to calculate revenue shares at the jump-off quarter.[520] Two commenters argued that the five-year lookback period is too long. One commenter argued that a five-year lookback period would be inappropriate because of recent industry changes to cost structures and recommended that noninterest expense modeling should be based on more recent experience. This commenter argued that the Board's proposed efficiency ratio approach would directly link noninterest expense to revenue based on the prior five-year average without explicitly considering a firm's recent cost structure, any cost management actions that a firm may take under stress, or actions that a firm may have already taken in the recent past to improve efficiency (particularly with respect to variable costs). Another commenter asserted that the lookback period's length would result in model projections that are largely insensitive to recent improvements in a firm's cost structure.

[520] 2025 PPNR Model Documentation, 248.

In response to comments, the Board shortened the lookback window for calculating revenue shares and efficiency ratio levels at jump-off. The 2026 Final PPNR Model will utilize three years of data when calculating revenue shares at jump-off, compared to the longer historical period in the 2026 Proposed PPNR Model's approach. The Board considers the three-year lookback window to be appropriate as it balances recent performance with year-to-year stability. Similarly, the Board also shortened the estimation sample to include only post-2020 firm projections. While the proposed approach would have utilized all available historical projections dating back to 2014 for certain firms, the modified model is estimated using more recent firm projections. This modification better reflects recent experience and projections derived from more mature and refined models.

b. Firm Heterogeneity

As discussed above, the Board proposed to model noninterest expense through a unified efficiency ratio approach based on an industry model of firm projections from previous stress testing exercises.[521] Three commenters stated that the Board's proposed efficiency ratio model would not provide for sufficient heterogeneity across firms. The Board's 2026 Proposed PPNR Model assumes that the shape of the time series path of efficiency ratios is constant across firms, which, in one commenter's view, fails to reflect important sources of heterogeneity across firms. As a result, the commenter argued that the proposed approach would produce more conservative and conceptually unsound outputs as compared to those generated by the Board's current noninterest expense model. Another commenter stated that the proposed noninterest expense model implies that two banks with the same revenue mix have the same efficiency ratio, ignoring diversity in how individual banks manage expenses. The commenter suggested that the Board

[521] 2025 PPNR Model Documentation, 246–47.

enhance the efficiency ratio model by introducing bank-specific fixed effects into the proposed regression to better tailor outputs to individual firms. Another commenter recommended that the Board apply firm-specific adjustments based on each firm's efficiency ratio at jump-off. The commenter stated that, for example, its lower rewards and benefit expenses on cards contribute to a notably lower efficiency ratio, allowing the firm to continue to lend to borrowers that may exhibit higher charge-off rates under stress. Alternatively, the commenter recommended that the Board incorporate a modeling assumption in which a firm's noninterest expense jump-off remains flat or is held constant at a longer-term historical average over the projection horizon.

In consideration of the comments, the Board made two modifications to the proposed efficiency model. First, the Board reconfigured the model to estimate changes in efficiency ratios relative to the jump-off period. While the proposed framework would have directly modeled the efficiency ratio, the 2026 Final PPNR Model estimates and projects changes in the efficiency ratio relative to the jump-off period, consistent with the revenue shares calculation. This approach anchors efficiency ratio projections to jump-off levels for each firm, allowing the Board to generate firm-specific projections that are anchored to recent performance. Under the modified efficiency ratio model in the 2026 Final PPNR Model, two firms with identical revenue mixes but different jump-off efficiency ratios would receive different efficiency ratio projections. While some commenters recommended that the Board implement firm-specific fixed effects, the modification described above incorporates firm heterogeneity in an economically similar but more effective way by anchoring the projection directly to the firm's recent efficiency

performance, and allows for the application of the model to firms not included in the estimation sample (e.g., Category IV firms).[522]

Second, the Board incorporated interaction terms between the time trend and revenue shares to generate firm-specific slopes. In the 2026 Proposed PPNR Model, projection trajectories across the nine projection quarters were assumed to be uniform across all firms. By introducing interaction terms between the time trend and revenue shares, the modified efficiency ratio model allows for greater heterogeneity in projection paths by generating differentiated slopes based on each firm's specific revenue mix. While alternatives were considered, this approach offers advantages relative to the alternatives suggested by commenters. First, introducing bank-specific fixed effects into the proposed regression[523] could increase the variance of the estimator, and consequently increase the variability of projections over stress test cycles.[524] Second, the use of firm-specific adjustments based on each firm's efficiency ratio at jump-off[525] suggests some degree of arbitrariness, and could diminish the reliability of stress test projections. Third, using a flatline projection based on firm's efficiency ratio at the jump-off[526]

[522] In particular, because firm-specific fixed effects could not be estimated for firms not included in the estimation sample, the Board chose to modify the original proposal rather than implementing firm-specific fixed effects. Additionally, the estimation of firm-specific fixed effects requires more degrees of freedom for statistical estimation than the modified model, which uses changes to the efficiency ratio as a dependent variable and has no firm fixed-effects.

[523] As previously described, one commenter suggested the adoption of firm fixed-effects in the efficiency ratio regression.

[524] For purely statistical reasons, the use of firm fixed-effects can result in changes to the sample of firms from one year to the next changing the projections for all other firms, independent of the scenario, recent firm performance, or firm balance-sheet characteristics. On the other hand, for models based on panel data, the use of firm fixed-effects is a valid, and frequently applied, approach to deal with the risk of estimation bias.

[525] As previously described, one commenter recommended that the Board apply firm-specific adjustments based on each firm's efficiency ratio at jump-off.

[526] As previously described, one commenter recommended that the Board use a flatline projection based on firm's efficiency ratio at jump-off.

would ignore the effect of adverse economic conditions on the path of the efficiency ratio over the projection horizon.[527]

c. Non-Recurring Expenses

The Board's 2025 PPNR Model excluded noninterest expenses that are non-recurring in nature and arise as a result of mergers, acquisitions, or divestitures because the Board assumes that these expenses will not be incurred in the future.[528] The Board's proposed efficiency ratio model for noninterest expenses in the 2025 PPNR Model did not discuss special treatment for non-recurring expenses.

Two commenters suggested that the Board exclude non-recurring expenses from its proposed efficiency ratio model. One commenter stated that the inclusion of non-recurring expenses, such as merger and acquisition costs, may distort the efficiency ratio and reduce comparability among firms because they are not indicative of ongoing operations. Another commenter stated that because non-recurring expenses are idiosyncratic and not persistent, they should be deducted or otherwise addressed accordingly in the model

In consideration of these comments, the Board changed the data preparation process to remove non-recurring expenses from the proposed efficiency ratio calculation. The 2026 Final PPNR Model excludes one-time, non-recurring expenses from the historical data underlying the calculation, improving projection accuracy by better reflecting recurring operating expenses.

d. Revenue Mix Concentration

As discussed above, the proposed noninterest expense model projects the efficiency ratio based on firm projections and according to the impact of different business segment revenue

[527] FR Y-14Q data suggests that that efficiency ratios are likely to increase given an adverse, unanticipated economic shock.

[528] 2025 PPNR Model Documentation, 161.

shares over the preceding five years.[529] One commenter stated that the proposed efficiency ratio model penalizes firms that are highly concentrated in wealth management. The commenter asserted that, as an example, a hypothetical firm only generating wealth management revenue would have an efficiency ratio of over 100 percent over the projection horizon, despite the fact that wealth management is a relatively lower-risk business line. The commenter argued that the Board's proposal to apply uniform efficiency ratio paths over the projection horizon would further penalize firms with large wealth management businesses, as this approach would not reflect differences in firms' revenue composition. The commenter recommended that the Board either incorporate firm-specific fixed effects in place of the proposed revenue share variables or modify its data collections to enable more accurate and granular calculations of noninterest expense and noninterest income.

In considerations of the comment, the Board modified the revenue category employed in the revenue mix variables in the model. Under the 2026 Proposed PPNR Model, firms with business mixes concentrated in a single revenue category may have experienced skewed efficiency ratio projections. After carefully considering alternatives using both fewer and more revenue categories, the Board's updated models consolidate revenue categories into three groups: market-based activities, consumer banking, and miscellaneous. These categories include items from both net interest income and noninterest income. This approach ensures more robust projections for firms with highly concentrated revenue streams by using fewer revenue categories (three instead of 11), thereby reducing the number of parameters. Notably, wealth management falls under the residual revenue category and demonstrates reasonable efficiency ratio projections under this revised framework.

[529] 2025 PPNR Model Documentation, 171.

While the commenter recommended replacing the revenue share variables with firm-specific fixed effects, the Board is not adopting this approach. As noted previously, the Board changed the model configuration to model firm-specific changes in the efficiency ratio rather than absolute efficiency ratio levels, resulting in an approach that reflects firm heterogeneity in an economically similar manner to the use of firm-specific fixed effects. The 2026 Final PPNR Model also retains the revenue shares variable to help capture differences in firm business models. Combined with the modified revenue category and changes in the approach to estimating efficiency ratios, the revenue shares variables allow the updated model to generate heterogenous efficiency ratio paths on a more firm-specific basis.

e. Outlier Data

The Board proposed to estimate firm efficiency ratios using firm projections from the FR Y-14A data.[530] One commenter supported the use of the efficiency ratio model for noninterest expense but expressed concern about the impact of outliers in the FR Y-14A data. The commenter argued that historical projections from the FR Y-14A may include outliers that would skew efficiency ratios and compromise model reliability. The commenter recommended that the Board adjusts its FR Y-14A input data to remove outliers from regressions. In consideration of the comment, the Board's 2026 Final PPNR Model modifies the estimation data to remove the top and bottom one percent of the efficiency ratio distribution. This modification would address outliers and ensure that the efficiency ratio estimates are not unduly influenced by extreme projections.

[530] 2025 PPNR Model Documentation, 248–49.

f. Noninterest Expense Dynamics Under a Stress Event

The proposed efficiency ratio model would project noninterest expense under stress using firm projections from the FR Y-14A.[531] The proposed model relates efficiency ratios to various revenue components over the lookback period. The resulting projections are distinct from estimates under the GMS component, which separately simulates severe market distress over a very short time period, or estimates of expenses related to provisions.

One commenter stated that the projection of expenses should be sensitive to all revenue, not just pre-provision net revenue, as banks will curtail expenses in response to losses from provisions or a hypothetical global market shock just as they would in response to reductions in pre-provision net revenue. The commenter recommended that the efficiency ratios accurately reflect all pertinent revenue components, including losses from non-pre-provision net revenue, such as those estimated by the GMS, FVO, and Private Equity Models. Another commenter stated that the proposed efficiency ratio approach does not sufficiently capture expense management dynamics in stress periods, as expenses are more sensitive to the economic environment than the Board's proposed approach would imply. The commenter asserted that, if the Board does not account for expense management dynamics, the proposed model could produce materially inconsistent capital requirements across firms, whereby firms with fixed expenses benefit relative to firms with expenses that are more highly correlated with revenues.

One commenter also stated that the Board's proposed model would not include any lag effects. The commenter acknowledged that firms' costs and expenses would adjust in accordance with changing economic conditions but asserted that such adjustments would not be immediate in all cases.

[531] 2025 PPNR Model Documentation, 248–49.

The Board has considered the comments submitted and has determined to retain the model's approach to modeling noninterest expense under stress as proposed in the 2026 Final PPNR Model. The efficiency ratio framework maintains a tight linkage between contemporaneous expenses and revenues. The revenue components used to calculate the efficiency ratio include net interest income and noninterest income, excluding operational risk losses and other loss components. Within the efficiency ratio framework, the Board found that relating noninterest expense to pre-provision net revenue yielded reasonable projections. The incorporation of provisions or other loss components could result in negative revenue inputs, posing technical challenges for the efficiency ratio models.

Controlling for revenue shares and efficiency-ratio jump-off levels in the noninterest expense model appropriately reflects the underlying composition of fixed-versus-variable expenses. Consistent with the 2026 Proposed PPNR Model and the 2026 Final PPNR Model, business lines with more scalable or flexible cost bases would exhibit stronger expense adjustments when revenues change compared to activities with more fixed costs. Instead of an explicit fixed-versus-variable expense split, by conditioning expense dynamics on firms' revenue composition, the efficiency ratio model captures the economic effects of fixed-versus-variable cost structures and better reflects different firms' business models.

g. Structural Modeling with Granular Expense Components

One commenter suggested that the Board should implement a simplified structural noninterest expense model. The commenter asserted that a simplified structural model would adequately capture heterogeneity across firms, account for substantial changes and variations in revenue mix across the banking industry, and reflect individual firms' recent cost structures, all while maintaining a conservative, simple, and consistent approach.

The commenter's recommended model would hold a significant number of cost components flat at their jump-off levels, consistent with the commenter's assertion that these components (e.g., fixed compensation) are not generally responsive to the economic cycle. These components would be held flat at their trailing four-quarter averages at jump-off throughout the projection horizon. According to the commenter, this approach would be simple, transparent, and consistent with firms' experiences. The commenter's proposed model would allow certain other cost components that may be sensitive to market changes or are strongly associated with revenue (e.g., variable pay, including stock and cash-based compensation) to vary with economic scenario variables and revenue drivers. For example, the commenter stated that commission income is generally linked to investment management fees though a commission-to-fee ratio, while stock and cash-based pay vary with macroeconomic drivers and firm revenues. The commenter's proposed model would reflect that expenses from these components would be expected to decline as macroeconomic indicators worsen or revenues decrease. For all other non-compensation expenses that vary with the economic cycle (e.g., marketing expenses), the commenter recommended that the Board update its model to project these expenses following the collection of additional data that shows a reliable empirical relationship with expenses.

One commenter recommended that variable compensation expenses be anchored directly to the revenues with which they are associated in the noninterest expense model. The commenter expressed concern with the proposed approach for modeling wealth management expenses, arguing that financial advisor compensation is proportional to revenues generated and that this ratio does not materially change under different economic conditions. The commenter recommended an alternative approach that utilizes the recent average commission-to-investment

management fee ratio, calculated using historical commission expenses and investment management fees from FR Y-14Q, Schedule G.1 (items 28C and 19B, respectively). The commenter proposed that projected commission expenses should equal projected fee income multiplied by this historical ratio; that the proposed collection of information on compensable revenue through the FR Y-14Q would further enhance the risk-sensitivity of this approach; that if finalized as proposed, compensable revenue could be used as the denominator in the ratio calculation; and that the Board could add a voluntary reporting line item to identify financial advisor compensation.

One commenter recommended that the Board increase the granularity of the data it collects to enable more accurate and specific modeling of noninterest income and expense by firm. The commenter suggested that reporting changes should focus on controllable noninterest expense items that are not discretely identifiable in the existing reporting template to construct independent models that link variable expenses and revenues on a more specific and empirical basis.

Another commenter suggested that the noninterest expense model capture more granularity in noninterest expense by including a new subcategory for marketing expenses. According to the commenter, marketing budgets are typically more flexible than budgets for other expenses and can be adjusted quickly during times of stress. Additionally, the commenter stated that because consumer lending firms typically operate with larger marketing budgets, they can drastically reduce such budgets during a downturn. The commenter argued that the proposed noninterest expense model overstates noninterest expense for such large consumer firms, thereby disincentivizing the provision of credit to consumers.

The Board considered the comments submitted and determined to retain the modeling framework as proposed in the 2026 Final PPNR Model. A more granular approach (including flatlining certain expense components, transitioning to a structural approach, or treating specific expense components differently) is not appropriate for implementation for two reasons. First, FR Y-14 compensation reporting by business line lacks sufficient granularity. As a result, a structural approach would require linking firm-level compensation expenses to business-line revenues, introducing significant complexity and volatility that could reduce both the interpretability of the model and the transparency of its outputs. Second, a structural model of non-compensation expenses would have limited applicability. A substantial portion of these expenses fall within the heterogeneous "all other" category, reflecting the lack of more specific line-item definitions across firms.[532] As a result, the ability to structurally model noninterest expense in this category is currently limited and unlikely to yield material improvements without an expansion in data collection.

The Board will continue to consider whether changes are warranted to ensure the accuracy of noninterest expense projections and will consider adjustments in the future as appropriate. The finalized efficiency ratio model is reasonable for projecting noninterest expense under the stress test scenario without increasing data reporting burden.[533]

E. Other Comments

1. Disclosure

[532] The absence of specific information regarding the composition of heterogeneous categories such as "all other expenses" presents significant challenges for structural forecasting. Without detailed line-item information, it is difficult to establish direct correlations between these expenses and underlying macroeconomic variables.

[533] The additional data collection necessary to implement commenters' suggestions would be substantial, resulting in significant burden for reporting firms. The current efficiency ratio model already captures the essential relationship between revenue and expenses, as well as the dynamic adjustment of expenses as revenues drop during a severe recession.

One commenter stated that the Board did not provide sufficient information for the commenter to adequately assess the performance of the 2026 Proposed PPNR Model.

In response to the comment, the Board added additional details to the 2026 Final PPNR Model Documentation to further increase the transparency and clarity of the proposed model specifications. The Board has also provided clarifications for aspects of the PPNR Model in Sections A.ii, A.iii, A.iv., and A.v of the 2026 Final PPNR Model Documentation.

2. Interaction with Other Aspects of the Stress Test Framework

One commenter stated that the Board should carefully consider how any revisions to the PPNR models would interact with other aspects of the overall supervisory stress testing framework. As an example, the commenter recommended that the Board consider if any potential issues with the proposed valuation allowance methodology would impact the Board's 2026 Proposed PPNR Model.

As described throughout this section, the Board considers model interactions in its modeling decisions, and will continue to consider how model revisions interact with other aspects of the supervisory stress test to ensure that the models as a whole work as intended to fulfill the objectives of the supervisory stress test.

3. Other Comments

One commenter stated that the 2026 Proposed PPNR Model's flat balance sheet assumption would create significant distortions for firms with large automobile loan portfolios. Because auto loans amortize very quickly, the flat balance sheet assumption would require that these firms to originate a large volume of auto loans in the stress test; according to the commenter, such significant originations are fundamentally implausible in a severely adverse scenario.

As stated in the Stress Testing Policy Statement, the aim of supervisory stress testing is to assess whether firms are sufficiently capitalized to absorb losses during times of economic stress, while also continuing to lend to households and businesses.[534] The assumption that a balance sheet is consistently maintained allows supervisors to evaluate the health of the banking sector to withstand stress without creating a credit contraction and substantially increasing the severity and duration of an economic downturn. The Board considers the constant balance sheet assumption in the 2025 PPNR Model to be consistent with the Policy Statement's credit maintenance principle and the objectives of the stress test.[535]

Some commenters also provided recommendations on the stress testing models as part of their SCB Volatility Proposal comment letters. One commenter recommended that the PPNR Model be floored at $0 to account for the double counting of risk in supervisory models. Another commenter recommended that the Board revise the PPNR Model to ensure the projections are accurate, as the commenter asserted that the PPNR Model includes an erroneous assumption that the risk characteristics of products and markets have remained static since the 2007–2009 financial crisis.

The Board has considered these comments and has determined not to make changes to the PPNR Model in response to these comments. Historical experience has shown that, in episodes of acute economic and financial distress, total reported pre-provision net revenue can be negative for bank holding companies for various reasons. The PPNR Model already includes features designed to address double-counting of risks where judged necessary by the Board. For example, the Board is adopting a modified version of the discount factor model for noninterest

[534] 12 CFR 252, Appendix A, section 2.7.

[535] *Id*.

income that floors income at zero for certain components in order to address the potential double-counting of losses. The Board determined that flooring total PPNR at $0 would not deliver additional benefits with respect to double-counting losses and would instead increase the risk of overestimation of income under stressed economic scenarios.

Regarding the evolution of risk characteristics of products and markets since the 2007–2009 financial crisis, the 2026 Final PPNR Model is able to capture the evolving characteristics of financial products and markets. The 2026 Final PPNR Model estimates interest income and interest expense, other than interest expense on other borrowing, through structural models; net interest income on trading assets and liabilities and interest expense on other borrowing through regression models; noninterest income through discount factor models; and noninterest expense through an efficiency ratio model. The historical data used in the estimation of the discount factor models and the efficiency ratio model has been shortened to include only the most recent years' firm projections. Moreover, structural models mostly avoid statistical estimation, and are generally designed to account only for the portfolio and liability composition of each firm at lift-off. In this sense, and because the structural models are not calculated using complete time series data for any firms, structural models are not affected by outcomes that occurred many years prior to the forecasting lift-off point.

VII. Scenarios Models

A. GMS Model

As described in the 2025 Model Documentation, the Board proposed to use the Global Market Shock ("GMS") component model ("GMS Model") to produce a set of hypothetical shocks to a large set of financial risk factors, such as stock market indices, currencies, commodities, interest rates, and credit securities, reflecting general financial market distress and heightened uncertainty. A firm subject to the annual Dodd-Frank Act supervisory stress tests that has significant trading activity must incorporate the global market shock into the severely adverse scenario.[536] In addition, certain large and highly interconnected firms must apply the same global market shock to project losses under the counterparty default scenario component. Model Documentation for the February 2026 Global Market Shock Component, which was used for the 2026 stress test, was published alongside the final 2026 scenarios in February 2026.[537]

The Board received a number of comments on the model documentation. The following subsections describe the comments received on each component, respond to the comments, and describe any action taken.

1. Quantile Regressions

As described in the February 2026 Global Market Shock Component Documentation, most of the secondary risk factors for the GMS component are modeled with quantile

[536] Firms that are subject to the global market shock are those with aggregate trading assets and liabilities of $50 billion or more, or with aggregate trading assets and liabilities equal to 10 percent or more of total consolidated assets; and are not a Category IV firm under the Board's tailoring framework. *See* 12 CFR 238.143(b)(2)(i); 12 CFR 252.54(b)(2)(i).

[537] Board, Final 2026 Global Market Shock Component (Feb. 2026), *https://www.federalreserve.gov/supervisionreg/files/2026-final-gms-model.pdf* ("February 2026 Global Market Shock Component Documentation").

regressions.[538] In market risk, extreme shocks tend to happen simultaneously during financial crises, which is captured by a quantile regression model because it expresses the conditional quantiles of secondary risk factors as a function of the primary risk factors.

One commenter stated that the GMS component's usage of quantile regression is not well-justified because quantile regression does not capture the correlation between extreme shocks or tail dependency. The commenter asserted that quantile regression-estimated relationships can be misleading when the two variables are independent, which can also lead to overly severe shocks. The commenter recommended using an applicability test before applying quantile regression in the GMS Model.

The Board has considered the comments submitted and has determined to finalize the use of the quantile regression model as described in the February 2026 Global Market Shock Component Documentation for the reasons discussed below.

While the quantile regressions do not directly measure tail dependence or the correlation between extreme shocks, the Board determined that this approach is suitable for capturing co-movement of extreme shocks in data. In particular, the Board's analysis found that primary and secondary factors were more likely to realize larger values together during historical stress periods.

The Board also considered a commenter's suggestion regarding the inclusion of an "applicability test." The Board has conducted analysis to assess the applicability of the quantile regression model used in the GMS Model. First, to test whether the current modeling choice leads to overly severe shocks, the Board conducted back-testing to assess the GMS Model's

[538] February 2026 Global Market Shock Component Documentation, 24–26; Fall 2026 Global Market Shock Component Documentation, Section C.ii.1.a.

ability to generate severe shocks in alignment with those observed in historical data. The analysis found that the quantile regression-based results do not result in excessive severity and reasonably reflect the observed historical stress shocks. Therefore, the Board's back-tests confirm that the quantile regression-based approach is suitable for generating stress scenarios. Second, to assess how likely the secondary risk factors are to fall in the tail when the primary risk factors also fall in the tail, the Board also calculated statistical tail dependency measures. The results support tail dependency in the data across many sets of primary and secondary risk factors because the primary and secondary risk factors tend to experience high-magnitude shocks at the same time. Therefore, given the back-testing and tail dependency assessment results, the current quantile regression approach is appropriate for the severely adverse scenario design.

Considering the purposes of the GMS Model,[539] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the GMS Model to be appropriate for the supervisory stress test, and has adopted the model as proposed and finalized in February 2026.

2. Securitized Products

As described in the February 2026 Global Market Shock Component Documentation, the GMS Model specifies shocks to securitized products[540] as market value haircuts, expressed in percentage terms, and applied over a liquidity horizon of three months.[541] These market value haircuts are generated for representative portfolios constructed by sampling securities across three dimensions: product types (e.g., residential mortgage backed securities), vintages (e.g., less

[539] February 2026 Global Market Shock Component Documentation, 4–6.

[540] Securitized products include non-agency commercial and residential mortgage-backed securities, asset-backed securities, and other products including corporate collateralized debt obligations, corporate collateralized loan obligations, and warehouse loans.

[541] February 2026 Global Market Shock Component Documentation, 54.

than three years to maturity), and ratings (e.g., AAA). The purpose of the representative portfolios is to provide a reflection of how the prices of current outstanding tranches of a given security type would respond to shocks to spreads.

One commenter suggested that the Board publish spread-based shocks in addition to the market value-based shocks for securitized products. The commenter asserted that market values do not capture duration, while spread-based shocks capture the impact of duration and align with market convention and internal models. The commenter also suggested that the Board publish parameters, such as conditional prepayment rate and conditional default rate, in addition to the spread-based shocks.

Other commenters suggested that spread-based shocks should be used instead of the market value shocks, and one of these commenters suggested that if spread-based shocks were adopted, the tenor-based interest rate shocks should also be published, especially for non-agency residential mortgage-backed securities.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the February 2026 Global Market Shock Component Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

As explained in the 2026 Scenarios Review of Comments, firms would have to make additional assumptions for estimating the stress losses, given the spread shocks.[542] Such additional assumptions would introduce inconsistency across firms and could make firms' results less consistent and comparable.[543] Furthermore, introducing spread-based shocks to securitized products in the GMS Model would require detailed data regarding firms' spread-based exposures that are not sufficiently captured to develop market shocks in the FR Y-14Q, and are not otherwise available. On the other hand, the market value-based shocks approach avoids imposing additional burden on firms and enables comparability across firms in a simple, consistent, and conservative manner, reflecting stress testing principles.

With respect to the recommendation of publishing parameters including conditional prepayment rate and conditional default rate, the Board has determined not to include these parameters as part of the published GMS shocks. The conditional prepayment rate and conditional default rate parameters depend on security-level collateral information. Adding this information to the GMS template would be operationally burdensome. The prepayment and default parameters are intermediate inputs into pricing engines, which are already reflected in the final market value-based shocks. Since the market value-based shocks are sufficient for computing stress losses under the current approach, the Board is not disclosing the conditional prepayment and default rate, or other parameters.

In considering the commenter's concern that market value-based shocks do not capture the capital impact of changes in bond duration, the Board has clarified that the global market shock methodology does take duration risks into consideration in setting market value-based

[542] Board, 2026 Scenario Review of Comments (Feb. 2026), *https://www.federalreserve.gov/supervisionreg/files/2026-scenario-review-of-comments.pdf*, 44–46.

[543] *See* 12 CFR 252, Appendix B, section 1.3.

shocks.[544] More specifically, using spread shocks as an input, the Board calculates market value-based shocks via full-revaluation using representative portfolios. The representative portfolios used in the full-revaluation inherently have different durations, and therefore can reflect the impact of duration.

The Board has determined to continue to publish market value-based shocks for securitized products, without adding the spread-based shocks, and as a result, tenor-based interest rate shocks as well.

Considering the purposes of the GMS Model,[545] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the GMS Model to be appropriate for the supervisory stress test, and has adopted the model as proposed and finalized in February 2026.

3. Other Fair Value Assets

As described in the February 2026 Global Market Shock Component Documentation, the GMS Model specifies shocks for Other Fair Value Assets (OFVA),[546] including setting shocks to housing- and tax-credit investments.[547] For other OFVA, the Board sets out simple mapping rules for equity and debt shocks.

One commenter suggested that Other Fair Value Assets (OFVA) positions should be removed from the GMS framework, and instead these positions should be subject to the severely

[544] February 2026 Global Market Shock Component Documentation, 45–46; Fall 2026 Global Market Shock Component Documentation.

[545] February 2026 Global Market Shock Component Documentation, 4–6.

[546] OFVA cover illiquid fair value securities that cannot be grouped into another asset class, such as public welfare investments covering housing credit, tax credits, and energy investments.

[547] February 2026 Global Market Shock Component Documentation, 54.

adverse scenario. The commenter asserted that OFVA positions are long-term in nature, such as renewable energy projects, which is inconsistent with the conceptual underpinnings of the GMS.

The Board has considered the comments submitted and has determined to finalize the model specifications as described in the February 2026 Global Market Shock Component Documentation for the reasons discussed below. The Board regularly assesses the performance of the supervisory stress test models and may consider changes to the model specifications, as well as revisions to regulatory reports to assess potential model changes, in the future. Any future model changes would be made consistent with the Board's enhanced disclosure process and the principles established in the Stress Testing Policy Statement.

As described in the February 2026 Global Market Shock Component Documentation, the GMS component is designed to reflect general market distress and heightened uncertainty. The Board's approach to set fixed shocks for housing- and tax-credit investments and mapping rules for other equity and debt shocks is designed to reflect general market distress and heightened uncertainty in a simple, consistent, and conservative manner, reflecting the Board's stress testing principles.[548] Although the OFVA products can be long-term investments, whereas the GMS component generally captures short-term market risks, developing a macroeconomic scenario-based OFVA model would require detailed data on OFVA positions and OFVA exposures, such as the risk characteristics and historical losses, which are not sufficiently captured in the FR Y-14Q or otherwise available. The Board will evaluate any additional information about these products, as it becomes available. While the Board is finalizing this aspect of the GMS Model as described in the October 2025 and February 2026 Global Market Shock Component

[548] 12 CFR 252, Appendix B, sections 1.3–1.4, 1.6.

Documentation, the Board may consider alternative approaches in the future through its regular process of model development and validation.

Considering the purposes of the GMS Model,[549] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the GMS Model to be appropriate for the supervisory stress test, and has adopted the model as proposed and finalized in February 2026.

4. Additional Guardrails and Other Topics

Commenters provided a variety of comments on topics related to the GMS component, including the GMS Model. These comments, the Board's responses, and descriptions of any changes to the GMS Model, are discussed in the Enhanced Transparency and Public Accountability final rule in Section VI.H of the Supplementary Information. Included in that discussion is an explanation for how the Board has adjusted the GMS Model documentation to revise the upper bound of the "severe" shock from the historical maximum to the 99.9th percentile (and the lower bound from the historical minimum to the 0.1th percentile). The discussion also clarifies that the Board would only consider shocks outside the bound of the "severe" shocks on an exceptional basis.

B. Small Macro Model

The Board's stress test uses a macroeconomic model (the "Macro Model for Stress Testing"), to assist in making the annual stress test scenario development process more transparent and predictable, while maintaining an appropriate level of severity in the severely adverse scenario.[550] The Macro Model for Stress Testing plays several roles in the stress testing

[549] February 2026 Global Market Shock Component Documentation, 4–6.

[550] *See* Board, Macroeconomic Model Guide (Oct. 2025), *https://www.federalreserve.gov/supervisionreg/files/macroeconomic-model-guide.pdf* ("October 2025 Macroeconomic Model Guide").

process, including providing the trajectories of the stress test scenarios for a handful of macroeconomic variables, including real and nominal gross domestic product (GDP), inflation rates, real and nominal disposable income, and short- and long-term interest rates. Rather than informing the specification of these values through guides, the paths of these variables in the severely adverse scenarios are primarily determined by the equations of the Macro Model for Stress Testing, taking as inputs the constraints provided by the other variables' guides—most importantly, the path of the unemployment rate.

1. Inflation

One commenter recommended that the Board disclose any adjustments it makes to the equation to determine PCE inflation, including any shocks in the first year of the projection horizon, as well as the effects of these adjustments on the model and its results.

As described in the February 2026 Macroeconomic Model Guide Documentation, the Board augments the equation for core PCE inflation with shocks in the first year of the projection horizon.[551] These shocks are calibrated by minimizing the sum of squared errors implied by the equation and shocks over the three recessions relative of the actual data. The shocks are assumed to be the same in each quarter across all recessions, to capture a systematic pattern that is common and robust to the three recessions. Shocks are introduced only from the second to the fourth quarter of the dynamic simulation period as it is preferable to insulate the procedure from the impact of the spike displayed by inflation in the first quarter of two of those recessions.[552]

[551] Board, Final 2026 Macroeconomic Model Guide (Feb. 2026), *https://www.federalreserve.gov/supervisionreg/files/2026-final-macroeconomic-model-guide.pdf* ("February 2026 Macroeconomic Model Guide Documentation"), 25.

[552] *Id.*

The effects of these shocks are displayed in Figure D1 of the Fall 2026 Macroeconomic Model Guide.

Considering the purposes of the Macro Model for Stress Testing,[553] as well as the comments received and the Board's responses above, the Board considers the above-mentioned specifications of the macro model for Stress Testing to be appropriate for the supervisory stress test, and has adopted the model as proposed and finalized in February 2026, with some edits made to provide technical corrections and clarifications.

[553] February 2026 Macroeconomic Model Guide, 5–8.