

Regulatory Alert

Regulatory Insights for Financial Services

October 2025

Capital: FRB Proposed Rules on Stress Testing Transparency

KPMG Regulatory Insights:

- **Continuation:** Signals a continuation of broader efforts by the banking regulators to revise and refine the capital framework.
- **Transparency:** Suggests more collaboration between banks and regulators through increased transparency and public engagement.
- **Reporting Relief:** Targeted changes to simplify data submissions may reduce reporting requirements, potentially lowering compliance costs and improving efficiency.
- **Impact:** Expected to result in less volatility but more risk-sensitive capital requirements; not expected to materially change capital requirements for covered firms.
- **More to Come:** One of several changes being considered for the bank capital framework (e.g., leverage ratios, GSIB surcharge, bank category thresholds, Basel III capital requirements).

The Federal Reserve Board (FRB) [proposes](#) rules to “enhance the transparency and public accountability” of its stress testing framework and requests comments on its supervisory stress test models and changes to the models implemented in the 2026 stress test. Proposed amendments would include:

1. “Enhancements” to the disclosure process
2. Revisions to the Stress Testing Policy Statement
3. Other revisions to stress testing and capital plan rules
4. Revisions to FR Y-14 A/Q/M
5. Changes to the stress test modeling framework
6. Changes to the Scenario Design Policy Statement

Comments are requested no later than January 22, 2026.

In a separate but related release, the FRB [requests](#) comment on the [2026 stress test scenarios](#). Comments on this release are requested no later than December 1, 2025.

Earlier this year, the FRB issued a proposed rule that would amend the calculation of the agency’s stress capital buffer requirements with the stated aim of reducing the volatility of capital requirements stemming from the annual stress test results (see [KPMG Regulatory Alert here](#)).

1. Proposed “enhancements” to the disclosure process

Under the proposal, to “increase transparency and public accountability,” the FRB would amend its disclosure process by:

- Annually publishing comprehensive documentation on the stress test models by May 15th of the year in which the stress test is performed.
- Annually publishing the proposed stress test scenarios by October 15th of the calendar year prior to the stress test, for at least a 30-day period.
- Publishing for comment all material model changes and responding to all substantive comments on such

proposed material model changes before implementing them in the stress test.

- Defining “model change” as the introduction of a new model or a conceptual change to an existing model.
- Defining a “material model change” as a model change that could have, in the Board’s estimation, an impact on the post-stress common equity tier 1 capital ratio of any firm, or on the average post-stress common equity tier 1 capital ratios of all firms required to participate in the upcoming stress test cycle, based on the prior year’s severely adverse scenario and prior year’s input data, equal to (i) a change of 20 basis points or more in the projected common equity tier 1 ratio of any firm participating in the upcoming stress test cycle; or (ii) a change of 10 basis points or more in the average of the absolute value of each firm’s change in projected common equity tier 1 ratio.
- Apply the definition “material model change” across both Regulation YY (Enhanced Prudential Standards) and Regulation LL (Federal Savings and Loan Holding Companies).

2. Proposed revisions to the Stress Testing Policy Statement

The FRB proposes to revise its Stress Testing Policy Statement by:

- Aligning the policy statement with the proposed enhanced disclosure process.
- Noting that public disclosures about a stress test will include “comprehensive” descriptions of the models and changes to those models.
- Clarifying that the FRB will generally disclose information directly to a firm about the firm’s supervisory stress test results that is not available to the broader public, so long as the FRB discloses similar information to the other firms participating in a given stress test cycle.

3. Other revisions proposed for the stress testing and capital plan rules

The stress testing and capital plan rules are revised to reflect the proposed disclosure of more information about the stress test scenarios. The changes would include:

- Modification of the jump-off date for the supervisory and company-run stress tests from December 31st to September 30th; the stress test scenario would be published after the jump-off date.
- Revision to the definition of “planning horizon” in Regulation Y (Bank Holding Companies and Change in Bank Control) and Regulation LL to reference quarters

five through eight (rather than quarters four through seven).

- Revision of the date range for the Global Market Shock (GMS) as-of date “to occur between (inclusive of) October 1 of the calendar year two years prior to the year in which the stress test is performed to (exclusive of) October 1 of the calendar year one year prior to the year in which the stress test is performed.”

4. Proposed revisions to FR Y-14 A/Q/M

The proposal includes targeted changes to the FR Y-14A, FR Y-14Q, and FR Y-14M reports, which are used to collect data for the stress tests. The FRB states the proposal would “remove items and documentation requirements that are no longer needed to conduct the supervisory stress test, as well as to collect additional data to improve risk capture.”

5. Proposed changes to the stress test modeling framework

The FRB is proposing changes to the models to be used for the 2026 stress test (available in the Model Changes document, [here](#), along with detail of the proposed changes to the individual risk models (e.g., credit, market, operational, pre-provision net revenue.)) Comment is specifically requested on these changes and the model documentation. At a high level, the FRB notes examples of model changes to:

- **Credit Risk Models**, including changes related to the:
 - Geographic factors used in scenario variables (First Lien, Home Equity, Credit Cards, Auto, and Commercial Real Estate Models)
 - Treatment of foreclosures under judicial supervision (First Lien and Home Equity Models)
 - Calculation of loss given default for international loans (Commercial Real Estate and Corporate Models)
- **Market Risk Models**, including changes related to the:
 - Process for projecting credit valuation adjustments for derivative positions in the Credit Valuation Adjustment Model
 - Amount of the loss given default assumption and parameters of the loan equivalent factor in the Fair Value Option Model
 - Exclusion of counterparties in the Largest Counterparty Default Model

6. Proposed changes to the Scenario Design Policy Statement

Proposed changes to the Scenario Design Policy Statement are intended to increase the predictability and transparency of the supervisory stress test. Highlights include:

- Clarification that two macroeconomic scenarios would be published – a baseline and a severely adverse scenario – and a description of the macroeconomic model used to support these scenarios would also be published.
- Publication of proposed scenarios on or around October 15th each year with final scenarios to be released on or around February 15th.

- Additional scenario guides for an expanded set of financial market variables in the macroeconomic scenario.
- Additional information about the framework and model components used to create the global market shock, including a description of the logic underlying the severity of the shock, as well as a description of the models and processes used to generate the shock.

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