KPMG

Regulatory Alert

Regulatory Insights for Financial Services



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Stress Testing and Capital Planning: FRB Final Rules

KPMG Regulatory Insights

- ***Refinement not Rewrite:*** *Reflects modernization of the stress testing framework with a focus on transparency and risk sensitivity; changes are expected to reduce volatility though not anticipated to provide significant capital relief in the aggregate.*
- ***Capital Planning:*** *Provides firms with more visibility into the relationship between their risk profile and capital requirements, increasing certainty when capital planning.*
- ***Public Input:*** *Encouraging public comment for model disclosures, model changes and scenarios is expected to promote public accountability (including investors, counterparties, and rating agencies), instill confidence in the fairness of the supervisory test, and strengthen market discipline.*

The Federal Reserve Board (FRB) issued two final rules that revise its supervisory stress testing framework and related capital plan rule. The final rules largely adopt the proposals as written with some modifications as outlined below.

- The first final rule: Related to stress testing transparency - addresses the disclosure process to "improve the transparency and public accountability" of the stress testing process. Changes from the proposed rule (see KPMG Regulatory Alert, here) include changes to the disclosure calendar, stress testing and capital plan rules, and the Scenario Design Policy Statement. This rule is effective November 2, 2026.
- The second final rule: Related to the stress capital buffer rule and referred to as the Volatility Rule - addresses the calculation and annual effective date of the stress capital buffer (SCB) requirements. Changes from the proposal (see KPMG Regulatory Alert, here) include changes to the timing of results averaging and reporting requirements. This rule is effective December 1, 2026.

In a related action, the FRB also issued a request for comment on proposed model changes to the noninterest income model to be used in the FRB's 2027 supervisory stress test along with related reporting requirements intended to improve risk capture in the stress test. Comments on this proposal are requested by December 1, 2026.

Note: the FRB's stress testing requirements are applicable to certain large banking organizations, generally including firms with $100 billion or more in total consolidated assets subject to Category I - IV standards. A firm subject to Category I - III standards must participate in the supervisory stress test every year. A firm subject to Category IV standards is generally required to participate only even-numbers years but may elect to participate in an odd-numbered year.

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Potential for Further Action

The FRB plans to move stress testing beyond simply informing capital requirements.

"Just as banks rely on stress testing to manage their own risk, the [FRB's] stress tests should do more for our supervisors than calculate a single capital requirement. [FRB] stress tests should also identify a firm's vulnerability to various material financial and nonfinancial risks before those risks emerge. That information, in turn, will help inform how best to focus our supervisory attention across our large bank portfolios."

— Michelle Bowman, FRB Vice Chair for Supervision
September 18, 2026

1. Stress Testing Transparency Framework

To "enhance transparency and public accountability" of the stress testing framework, the FRB has adopted final amendments to its rules, including:

- Enhancements to the disclosure process requiring annual publication of documentation on the stress test models, public comment on any proposed material changes to the stress test models, and public comment on annual stress test scenarios.
- Complementary changes to the stress test calendar of due dates and disclosures.
- Updates to the Stress Testing Policy Statement to align with the revised disclosures process.
- Changes to the Scenario Design Policy Statement, including clarification that two macroeconomic scenarios would be published (baseline and severely adverse) and updates to the methodology for the global market shock component of the severely adverse scenario.
- Revisions to the stress test data collection/reporting forms to remove items "no longer needed to conduct the supervisory stress test" as well as add items to enable the models to be used in the 2027 stress test.
- Adoption of final supervisory models for the 2027 stress test consistent with the provisions of the rule (incorporating public comment into the final models; disclosure and public input processes for scenarios and models to be used in future stress tests.)

Though adopted largely as proposed, some changes to the proposal were adopted in the final rule, including:

- Revisions to the definition of "material model change" to include all of the firms subject to the stress test rather than only those firms subject to the stress test in a given year, as proposed; this change is dependent on a new definition of "materiality determination company," which means a company that meets all of these criteria:
  - In at least one of the past two stress test cycles, has been subject to the FRB's stress test analysis.
  - In both the year prior to the year in which the stress test is performed and the year in which the stress test is performed, is subject to the stress test rules.
  - Has average total consolidated assets of at least $100 billion, as of the date of disclosure of material model changes.
- Introduction of an approach where the FRB expects to select two global market shock scenarios on the same as-of date in the annual supervisory stress test and use the scenario that generates higher losses in the calculation of a firm's stress test results.
- Continued use of the December 31 jump-off date (prior to the year of the stress test) and assignment of different due dates to items on the stress test calendar, including some instances where no date had been proposed (see table below).

Material Model Change

In the final rule, a "material model change" is defined as "a model change that, based on the prior year's severely adverse scenario and the prior year's input data, could have, in the Board's estimation, an impact equal to (i) a change of 20 basis points or more in any materiality determination company's projected post-stress common equity tier 1 capital ratio; or (ii) a change of 10 basis points or more in the average of all materiality determination companies' absolute value of the change in projected post-stress common equity tier 1 capital ratios."

2. Volatility Rule (Stress Capital Buffer)

The final rule amends the calculation of the stress capital buffer requirement with the aim of reducing the volatility of the capital requirements stemming from the annual stress test results. As proposed, the final rule would use the average of the FRB's prior two annual supervisory stress tests to inform a firm's stress capital buffer requirement for the upcoming year. This "results averaging" will only be applicable to firms participating in two consecutive annual supervisory stress tests. The firm's stress capital buffer requirement would then become effective January 1 (a change from the current October 1.)

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Modifications to the proposal include:

- Changes to bring forward the relevant dates to implement results averaging. Under the final rule, results averaging will go into effect for stress capital buffer requirements following the 2028 stress test. Beginning January 1, 2029, the stress capital buffer requirement for firms subject to results averaging will incorporate the average of the 2027 and 2028 stress tests.
- Elements of the reporting requirements, including a change in terminology to use "consolidated variable interest entities" and to retain certain informational items related to the pre-provision net revenue model.

Annual Stress Test Milestone	Existing Date	Proposed	Final Rule
Request public input on material model change prior to implementation	n/a	n/a	August 31
Public input period length for material model change	n/a	At least 30 days	At least 30 days
Scenario jump-off date	December 31	September 30	December 31
Firms subject to Category IV standards opt into stress test in odd-numbered year	January 15	n/a	January 5
Disclose proposed scenarios	n/a	October 15	January 10
Public input period length for scenarios	n/a	At least 30 days	At least 30 days
Disclosure of final scenarios	February 15	February 15	February 28
Stressed counterparty data submission deadline	April 5	n/a	April 5
Capital plan submission and company-run stress test deadline	April 5	n/a	April 30
Final model disclosure	n/a	May 15	May 15
Results disclosure and preliminary stress capital buffer requirement notification	June 30	n/a	June 30
Final stress capital buffer requirement disclosure	August 31	n/a	September 30
Stress capital buffer requirement effective date	October 1	January 1	January 1

Source: derived from FRB Board Memo

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