FEDERAL RESERVE SYSTEM

12 CFR Parts 225 and 238

[Regulations Y and LL; Docket No. R-1866]

RIN 7100-AG92

Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Board is inviting public comment on a notice of proposed rulemaking (the proposal) that would amend the calculation of the Board's stress capital buffer requirement applicable to certain large bank holding companies, savings and loan holding companies, U.S. intermediate holding companies of foreign banking organizations, and nonbank financial companies supervised by the Board to reduce the volatility of the stress capital buffer requirement. The proposal would use the average of the maximum common equity tier 1 capital declines projected in each of the Board's prior two annual supervisory stress tests to inform a firm's stress capital buffer requirement. The proposal would also extend the annual effective date of the stress capital buffer requirement by one quarter, to January 1, to provide additional time for firms to comply with the requirement. In addition, the proposal would make changes to the FR Y-14A/Q/M reports to collect additional net income data that would improve the accuracy of the stress capital buffer requirement calculation, as well as remove data items that are no longer needed to conduct the supervisory stress test. The changes in the proposal are not designed to materially affect overall capital requirements and would decrease regulatory reporting burden.

DATES: Comments must be received on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN FEDERAL REGISTER].

ADDRESSES: You may submit comments, identified by Docket R-1866 and RIN 7100 AG92, by any of the following methods:

Agency Web Site: https://www.federalreserve.gov/apps/proposals/. Follow the instructions for submitting comments, including attachments. *Preferred Method*.

Federal eRulemaking Portal: http://www.regulations.gov. Follow the instructions for submitting comments.

E-mail: publiccomments@frb.gov. You must include docket number and RIN in the subject line of the message.

FAX: (202) 452-3819 or (202) 452-3102.

Mail, Courier and Hand Delivery: Ann Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

Instructions: All public comments are available from the Board's web site at https://www.federalreserve.gov/apps/proposals/ as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room M–4365A, 2001 C Street NW, Washington, DC 20551, between 9:00 a.m. and 5:00 p.m. on federal weekdays. For security reasons, the Board requires that visitors make an appointment to inspect comments. You may do so by calling (202) 452-3684. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments. For users of TTY-TRS, please call 711 from any telephone, anywhere in the United States.

FOR FURTHER INFORMATION CONTACT: Juan Climent, Deputy Associate Director (202) 872-7526, Hillel Kipnis, Assistant Director, (202) 452-2924, Andrew Willis, Manager,

(202) 430-1667, Missaka Warusawitharana, Manager, (202) 452-3461, Christopher Appel, Lead Financial Institution Policy Analyst, (202) 973-6862, John Simone, Lead Financial Institution Policy Analyst, (202) 245-4256, and Mehdi Beyhaghi, Principal Economist, (202) 973-6909, Division of Supervision and Regulation; Asad Kudiya, Deputy Associate General Counsel, (202) 360-6887, Julie Anthony, Senior Special Counsel, (202) 658-9400, Jonah Kind, Senior Counsel, (202) 452-2045, Legal Division. Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551. For users of TDD-TYY, please call 711 from any telephone, anywhere in the United States. Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

SUPPLEMENTARY INFORMATION:

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I. Introduction

A. Planned Stress Test Public Comment Initiatives and Broader Policy Considerations

In December 2024, the Board announced that it would seek public comment on a proposal to make significant changes to its supervisory stress test practices and framework to improve their transparency and reduce volatility.[1]

This notice of proposed rulemaking (proposal) would help to reduce volatility of the stress capital buffer requirements. The Board also plans to issue proposals to seek public comment on the models it uses to determine the hypothetical losses and revenue of firms for the supervisory stress test and on a process to update the models at a frequency that ensures they remain dynamic while still subjecting those future changes to notice and comment. The Board also plans to seek public comment on the supervisory scenarios used in the supervisory stress test. In doing so, the Board seeks to improve the transparency of its supervisory stress test, while retaining appropriate risk sensitivity and risk capture in capital requirements, as well as effective tools for understanding and assessing risk. Maintaining the capacity to regularly update the supervisory stress test models and supervisory scenarios is integral to ensuring the stress test's ability to capture changes in the risks in the financial industry over time.

The Board is also considering broad modifications to its regulatory capital and capital planning requirements for large firms to ensure they remain cohesive and effective, maintain the resilience of the banking sector, and minimize any unnecessary burden. The Board will make any changes to its rules through the public notice and comment process.

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[1] *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm. In February 2025, the Board reiterated its previous announcement that it would begin the public comment process on changes to the supervisory stress test. *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250205a.htm.

Question 01: The Board seeks comment on all aspects of the proposal and its intended approach to seek comment on other significant changes to its supervisory stress test. What, if any, other elements of the supervisory stress test framework should the Board consider amending to improve the transparency and effectiveness of its supervisory stress test? For example, the Board could instead provide firms with their stress capital buffer requirements before firms are required to submit their annual capital plans. What would be the advantages and disadvantages of this approach? As an additional example, the Board's Stress Testing Policy Statement states that some variables, such as the unemployment rate, generally will increase by a certain amount or rise to a certain level in the severely adverse scenario.[2] What would be the advantages and disadvantages of the Board defining the paths of other variables in the severely adverse scenario? On which variables should the Board consider defining paths and why?

B. Background on Stress Testing Framework and the Stress Capital Buffer Requirement

Stress testing is a core element of the Board's regulatory framework and supervisory program for large firms. The stress test enables the Board to assess whether large bank holding companies, savings and loan holding companies, U.S. intermediate holding companies of foreign banking organizations, and nonbank financial companies supervised by the Board (collectively, firms) have sufficient capital to absorb potential losses and continue lending under a set of hypothetical severely adverse conditions, although it is not designed or intended to be predictive of future economic conditions. Since its inception in 2009, supervisory stress testing[3]—together

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

[3] In 2009, the Board used the supervisory stress test to assess the capital sufficiency of large banking organizations under stress in the Supervisory Capital Assessment Program (SCAP). In 2012, the Board finalized a rule that subjects large firms to annual supervisory stress testing. *See* 77 FR 62378 (October 12, 2012).

with stronger capital requirements implemented in the Board's capital rule—has played a critical role in helping to ensure the resilience of the U.S. banking system.[4]

Each June, the Board publishes the results of its annual supervisory stress test, including each firm's projected capital ratios, pre-tax net income, losses, revenues, and expenses, under severely adverse economic and financial conditions. The Board projects these results using a set of supervisory models that take as inputs firm-provided data on firms' financial conditions and risk characteristics, as well as the Board's supervisory scenarios.[5] The supervisory models are developed by the Board, in accordance with the Board's Stress Testing Policy Statement.

Based on the supervisory stress test results, the Board calculates each firm's preliminary stress capital buffer requirement as the difference between the firm's starting and minimum projected common equity tier 1 capital ratio under the severely adverse scenario in the supervisory stress test (stress capital decline component), plus four quarters of planned common stock dividends as a percentage of risk-weighted assets (dividend add-on component). The stress capital buffer requirement has a minimum value of 2.5 percent of risk-weighted assets. A firm can adjust the amount of its planned dividends after receiving its preliminary stress capital buffer requirement. A firm can also request reconsideration of the calculation of its preliminary stress capital buffer requirement. The final stress capital buffer requirement, which includes any updates to a firm's dividend add-on or stress capital decline component since the preliminary

[4] The common equity capital ratios of firms subject to the supervisory stress test have more than doubled since 2009, with common equity capital at such firms increasing by over $1 trillion, based on FR Y-9C report (Consolidated Financial Statements for Holding Companies) filings.

[5] For more information on the scenarios, *see* Board of Governors of the Federal Reserve System, *2024 Stress Test Scenarios* (Feb. 2024), https://www.federalreserve.gov/publications/files/2024-stress-test-scenarios-20240215.pdf.

requirement, becomes part of the firm's ongoing capital requirements, generally effective October 1 of a given year.[6]

The stress capital buffer requirement is generally recalculated annually based on the latest supervisory stress test results, making the requirement sensitive to changes in a firm's risk profile and economic conditions.[7] The Board can also recalculate a firm's stress capital buffer requirement if the firm experiences a material change to its risk profile, financial condition, or corporate structure (material change). A firm that has its stress capital buffer requirement recalculated outside of the regular timeline is also given the opportunity to adjust its planned dividends and request reconsideration of its stress capital buffer requirement.

The stress capital buffer requirement contributes to a firm's overall standardized approach capital conservation buffer requirement, along with any applicable countercyclical capital buffer requirement and GSIB surcharge requirement.[8] The Board implemented capital buffer requirements following the 2007-2009 financial crisis, during which some firms continued

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[6] *See* 12 CFR 225.8(h)(4).

[7] A firm subject to Category I-III standards must participate in the supervisory stress test every year, while a firm subject to Category IV standards is generally required to participate only every other year. *See* 12 CFR 217.2 and 12 CFR 252.5; *see also* Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, 84 FR 59032 (Nov. 1, 2019). In 2019, the Board adopted rules establishing four categories of prudential standards for U.S. banking organizations with total consolidated assets of $100 billion or more and foreign banking organizations with combined U.S. assets of $100 billion or more. Category I standards apply to U.S. global systemically important bank holding companies (GSIBs) and their depository institution subsidiaries. Category II standards apply to banking organizations with at least $700 billion in total consolidated assets or at least $75 billion in cross-jurisdictional activity and their depository institution subsidiaries. Category III standards apply to banking organizations with total consolidated assets of at least $250 billion or at least $75 billion in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure and their depository institution subsidiaries. Category IV standards apply to banking organizations with total consolidated assets of at least $100 billion that do not meet the thresholds for a higher category and their depository institution subsidiaries.

[8] *See* 12 CFR 217.11.

to pay dividends and discretionary bonuses as their financial positions deteriorated.[9] Capital buffers are intended to help firms maintain sufficient capital to absorb losses and support lending and other financial intermediation in periods of stress, protecting the financial system's stability.

The stress capital buffer requirement helps ensure that capital requirements include a forward-looking estimate of capital needs under hypothetical adverse economic conditions. In this sense, the supervisory stress tests can help augment minimum capital requirements, such as those based on the risk weights assigned to exposures under the standardized approach. Incorporating stress capital buffer requirements into firms' capital planning processes affects firms' decisions about capital planning, firm investments, portfolio composition, and financial intermediation. Thus, changes to the stress capital buffer framework could have important macroeconomic implications, given that the firms subject to the supervisory stress test are typically large financial institutions whose provision of credit impacts the state of the U.S. economy.

Statutory Authorities for the Board's Stress Testing and Stress Capital Buffer Framework

The International Lending Supervision Act of 1983 provides the Board with broad discretionary authority to set minimum capital levels for state member banks and certain affiliates of insured depository institutions, including holding companies, supervised by the Board.[10] Under section 5(b) of the Bank Holding Company Act of 1956 (Bank Holding

[9] *See* 8 FR 62018 (Oct. 11, 2013). *See also* Hirtle, Bank Holding Company Dividends and Repurchases during the Financial Crisis, *Federal Reserve Bank of New York Staff Report, No. 666*, Abstract (March 2014), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr666.pdf ("Many large U.S. bank holding companies (BHCs) continued to pay dividends during the 2007-09 financial crisis, even as financial market conditions deteriorated, large losses accumulated, and emergency capital and liquidity were being provided by the official sector.").

[10] *See* 12 U.S.C. 3902(1); 3907(a); 3909(a)(2).

Company Act), the Board may issue such regulations and orders relating to capital requirements of bank holding companies as may be necessary for the Board to carry out the purposes of the Bank Holding Company Act.[11] Foreign banking organizations with a U.S. branch, agency, or commercial lending company subsidiary are made subject by the International Banking Act of 1978 (International Banking Act) to the provisions of the Bank Holding Company Act in the same manner as bank holding companies;[12] therefore, the Board is also authorized under section 5(b) of the Bank Holding Company Act to impose these requirements on those foreign banking organizations, including on their U.S. operations. Similarly, with regard to savings and loan holding companies, section 10(g) of the Home Owners' Loan Act authorizes the Board to issue such regulations and orders relating to capital requirements as the Board deems necessary and appropriate to carry out the purposes of the Home Owners' Loan Act.[13]

Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act),[14] as amended by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act,[15] requires the Board to establish risk-based capital requirements for bank holding companies with $250 billion or more in total consolidated assets and nonbank financial companies supervised by the Board.[16] Additionally, section 165(i)(1) of the Dodd-

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[11] 12 U.S.C. 1844(b).

[12] *See* 12 U.S.C. 3106.

[13] *See* 12 U.S.C. 1467a(g)(1).

[14] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111–203, 124 Stat. 1376 (2010).

[15] Economic Growth, Regulatory Relief, and Consumer Protection Act, Pub. L. 115–174, 132 Stat. 1296 (2018).

[16] *See* 12 U.S.C. 5365(b)(1)(A)(i). The term bank holding company as used in section 165 of the Dodd-Frank Act includes a foreign bank or company treated as a bank holding company for purposes of the Bank Holding Company Act, pursuant to section 8(a) of the International

Frank Act, as amended by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act, requires the Board to conduct an annual supervisory stress test of bank holding companies with $250 billion or more in total consolidated assets.[17] Section 401(e) of the Economic Growth, Regulatory Relief, and Consumer Protection Act requires the Board to conduct periodic stress tests for bank holding companies with total consolidated assets between $100 billion and $250 billion.[18]

Section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act also added section 165(a)(2)(C) of the Dodd-Frank Act, which authorizes the Board to apply any prudential standard established under section 165 to any bank holding company or bank holding companies with $100 billion or more in total consolidated assets to which the prudential standard does not otherwise apply, provided that the Board (1) determines that application of the prudential standard is appropriate to prevent or mitigate risks to the financial stability of the United States, or to promote the safety and soundness of such firm(s); and (2) takes into consideration the capital structure, riskiness, complexity, financial activities (including financial activities of subsidiaries), size, and any other risk-related factors of such firm(s) that the Board deems appropriate.[19]

Banking Act. *See* 12 U.S.C. 3106(a); 12 U.S.C. 5311(a)(1). *See also* section 401(g) of the Economic Growth, Regulatory Relief, and Consumer Protection Act (regarding the Board's authority to establish enhanced prudential standards for foreign banking organizations with total consolidated assets of $100 billion or more).

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

[18] 12 U.S.C. 5365 note.

[19] 12 U.S.C. 5365(a)(2)(C).

Question 02: *What other approaches, if any, should the Board consider with respect to the supervisory stress test that would continue to help ensure that large firms are operating safely and soundly?*

C. Volatility in Capital Requirements

A firm's supervisory stress test results can vary, in some cases materially, from year to year based on several factors, including changes in (1) firms' balance sheet size and risk or projected income and expenses, (2) economic conditions since the previous stress test, (3) the severely adverse scenario used in the supervisory stress test, and (4) the supervisory models used in the supervisory stress test. Changes in the composition or health of a firm's balance sheet can lead to changes in the supervisory stress test results, as the stress test is sensitive to the outlook for distinct asset classes and revenue sources under adverse economic conditions.[20]

Stress test results may vary from year to year due to changes in economic conditions since the previous stress test (the jumping off point of each year's scenario) and changes in scenario variables over the projection period, which is the forward-looking part of the scenario.[21] The global market shock and large counterparty default components of the supervisory severely adverse scenario can also play a significant role in determining year-over-year changes in stress capital buffer requirements, particularly for large firms with substantial trading operations and counterparty exposures.

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[20] For data on estimated stress capital buffer requirements under various policy scenarios, see Section III.D.1, table 1 in the economic impact assessment.

[21] The conditions during the projection period include both adjustments of the scenario determined, in part, by changes in current economic conditions – for example, the unemployment rate guide in the scenario design framework ties the increase in the unemployment rate in a given scenario to the level of the unemployment rate at the time the scenario is designed – and discretionary changes to the salient risks featured in the scenario.

Improvements to the supervisory models used to project a firm's capital ratio can also lead to changes in results. The Board has a policy of phasing in material model changes over a two-year period to promote stability of the requirements. This policy reduces, but does not eliminate, variability in stress test results driven by model changes.

Significant year-over-year variation in capital requirements may impact the provision of banking services.[22] Such variation could influence decision-making regarding investment and expansion, create challenges in long-term capital planning, and impact the supply of credit to households and businesses.

Standard economic theory holds that abrupt changes in capital requirements can be costly.[23] When faced with a sudden increase in the stress capital buffer requirement, a firm has various options to meet the requirement, including using its retained earnings, shrinking its management buffer (the amount of capital a firm holds above its minimum requirements), reducing its risk-weighted assets, or issuing equity externally.[24]

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[22] *See* Fraisse, H., Lé, M. and Thesmar, D., 2020. The real effects of bank capital requirements. *Management Science*, *66*(1), pp.5-23; Jiménez, G., Ongena, S., Peydró, J.L. and Saurina, J., 2017. Macroprudential policy, countercyclical bank capital buffers, and credit supply: Evidence from the Spanish dynamic provisioning experiments. *Journal of Political Economy*, *125*(6), pp.2126-2177; Gropp, R., Mosk, T., Ongena, S. and Wix, C., 2019. Banks response to higher capital requirements: Evidence from a quasi-natural experiment. *The Review of Financial Studies*, *32*(1), pp.266-299; Berger, A.N. and Udell, G.F., 1994. Did risk-based capital allocate bank credit and cause a" credit crunch" in the United States?. *Journal of Money, credit and Banking*, *26*(3), pp.585-628; Kashyap, A.K., Stein, J.C. and Hanson, S., 2010. An analysis of the impact of 'substantially heightened' capital requirements on large financial institutions. *Booth School of Business, University of Chicago, mimeo*, *2*, pp.1-47; Peek, J. and Rosengren, E.S., 1997. The international transmission of financial shocks: The case of Japan. *The American Economic Review*, pp.495-505.

[23] *Id.*

[24] Economic literature shows that banking organizations maintaining robust capital buffers above required minimum ratios are better equipped to absorb shocks and sustain lending during periods of economic stress and uncertainty. *See, e.g.,* Berger, A.N. and Bouwman, C.H., 2013. How does capital affect bank performance during financial crises?. *Journal of financial*

When a firm's new stress capital buffer requirement is substantially higher than expected and its management buffer is insufficient to meet the requirement, the firm might choose to raise equity quickly, which can be complex and potentially more costly than simply retaining earnings.[25] Alternatively, or in conjunction with raising equity, the firm might opt to make changes to its risk-weighted assets, which could involve reducing lending and shrinking its balance sheet. Sudden changes in stress capital buffer requirements might lead a firm to sell off riskier assets or restructure its portfolio in ways that could impact its long-term profitability and strategic positioning.

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economics, *109*(1), pp.146-176; Gale, D., 2010. The effects of bank capital on lending: What do we know, and what does it mean?. *International Journal of Central Banking*, *6*(34), pp.187-204; Carlson, M., Shan, H. and Warusawitharana, M., 2013. Capital ratios and bank lending: A matched bank approach. *Journal of Financial Intermediation*, *22*(4), pp.663-687; Ramcharan R, Verani S, Van den Heuvel SJ. From Wall Street to main street: the impact of the financial crisis on consumer credit supply. *The Journal of finance*, June 2016. 71(3):1323-56; Berrospide, J.M. and Edge, R.M., 2024. Bank capital buffers and lending, firm financing and spending: What can we learn from five years of stress test results?. *Journal of Financial Intermediation*, *57*, p.101061.

[25] There are several reasons why an untimely capital raise could be costly for banks. First, the market timing hypothesis suggests that the relative cost of equity varies over time, with managers preferring to raise equity when market conditions are favorable. Second, information asymmetries play a role. Corporate finance literature posits that market participants believe firm managers have superior information about the company's performance, prospects, and risks. This asymmetry leads external financiers to demand higher returns to compensate for increased risk. As a result, firms often must sell shares at a discount to their intrinsic value when raising capital, diluting existing shareholders' wealth. The urgency of the situation can exacerbate these effects, potentially forcing even steeper discounts. *See* Graham, J.R. and Harvey, C.R., 2001. The theory and practice of corporate finance: Evidence from the field. *Journal of financial economics*, *60*(2-3), pp.187-243; Huang, R. and Ritter, J.R., 2005. Testing the market timing theory of capital structure. *Journal of Financial and Quantitative Analysis*, *1*(2), pp.221-246. ; Myers, S.C. and Majluf, N.S., 1984. Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics*, *13*(2), pp.187-221; Frank, M.Z. and Goyal, V.K., 2008. Trade-off and pecking order theories of debt. *Handbook of empirical corporate finance*, pp.135-202.

Some firms have favored larger management buffers as an efficient approach to addressing uncertainty in capital requirements.[26] This preference may stem from the flexibility and relative ease of maintaining higher internal capital reserves compared to the challenges associated with rapid business restructuring or raising capital in potentially unfavorable market conditions. The proposal's approach to reducing stress capital buffer requirement volatility might encourage firms to decrease their management buffers, allowing them to deploy capital more efficiently across business lines. Consequently, firms might allocate more capital to lending and other financial intermediation activities, potentially fostering economic growth.

While the advantages of reducing stress capital buffer requirement volatility are discussed above, there are certain trade-offs to changing the current approach to stress capital buffer requirements. For example, the current approach ensures that capital requirements promptly adjust to reflect the most recent stress test results, capturing the latest changes in a firms' risk exposures and overall financial conditions.

D. Summary of the Proposed Rule

As discussed, volatility in stress capital buffer requirements can potentially impact the provision of banking services. To address this issue, the Board is issuing the proposal to (1) average the maximum common equity tier 1 capital declines projected in each of the Board's prior two annual supervisory stress tests to inform a firm's stress capital buffer requirement, and (2) extend the annual effective date of the stress capital buffer requirement by one quarter, from

[26] *See* Abad, J. and Pascual, A.G., 2022. Usability of Bank Capital Buffers: The Role of Market Expectations (IMF WP/22/21) (arguing that large U.S. banks in general hold lower management buffers relative to non-U.S. banks due to the stress capital buffer requirement but showing that all banks must have a sufficiently large management buffer so that any potential changes in their conditions in the future do not trigger the distribution restrictions associated with capital buffer requirements).

October 1 to January 1. With the proposed revisions, the capital buffer requirements would continue to be forward-looking and risk-sensitive, while reducing the volatility of capital requirements and thereby allowing for improved ability for firms to plan their capital positions and financial intermediation activity.

The proposal also would modify elements of the FR Y-14A/Q/M (Capital Assessments and Stress Testing) reporting forms to collect data that would provide greater insight into the net income composition of reporting firms and to eliminate data that are no longer needed to conduct the supervisory stress test.[27] This information would lead to more precise projections of capital in the supervisory stress test, which would better align the stress capital buffer requirements to firms' risk profiles.

II. Changes to the Calculation of the Stress Capital Decline Component of the Stress Capital Buffer Requirement

Currently, a firm's stress capital buffer requirement is informed by the stress capital decline component of a single year's supervisory stress test results. The proposal would modify the calculation of the stress capital decline component of the stress capital buffer requirement by averaging the maximum common equity tier 1 capital decline from the current and prior year's supervisory stress test results (results averaging).[28] The revised calculation would be applicable for firms beginning with the stress capital buffer requirement following the 2025 supervisory

[27] Firms with over $100 billion in total consolidated assets are required to submit the FR Y-14A/Q/M reports (Capital Assessments and Stress Testing). The data within the FR Y-14A/Q/M reports are used in the supervisory stress tests that inform firms' stress capital buffer requirements. The data are also used to support other Board supervisory efforts aimed at promoting the safety and soundness of large firms.

[28] The proposal would add a new definition of "stress capital decline," which is identical to the calculation for the stress capital decline component in the current framework. This new definition is a technical change intended to simplify the description of the averaging calculation and would not itself result in any substantive changes to the rule.

stress test (that is, the stress capital decline components from the 2024 and 2025 supervisory stress tests would be averaged as part of the calculation).[29] The calculation of the dividend add-on component would continue to be updated annually and be added to the averaged stress capital decline component to generate a firm's stress capital buffer requirement. The stress capital buffer requirement would remain floored at 2.5 percent of risk-weighted assets.

A. Results Averaging

1. Reducing Volatility and Improving Predictability

Results averaging under the proposal would reduce volatility in the stress capital buffer requirement by using an average of two results as opposed to using a single year's results.[30] Based on supervisory stress test data from 2019 to 2024, the proposal would reduce volatility in stress capital buffer requirements by approximately 17 percent compared to the current

[29] For example, if the stress capital decline component of a firm's 2024 supervisory stress test results showed a maximum common equity tier 1 capital ratio decline of 3.5 percentage points and this year's results showed a maximum common equity tier 1 capital decline of 5.5 percentage points, then that firm's stress capital decline component for purposes of the stress capital buffer requirement calculation would be 4.5 percent. Assuming the firm had a dividend add-on of 1.5 percentage points in the 2025 supervisory stress test, then the firm's new stress capital buffer requirement would be 6.0 percent. The averaging calculation for the stress capital decline component would use the actual, maximum common equity tier 1 capital ratio decline in the supervisory stress test, even if that amount is below 2.5 percent (i.e., if the actual, maximum common equity tier 1 capital ratio decline is 1.5 percent, then 1.5 percent, and not the 2.5 percent stress capital buffer requirement floor amount, would be used in the averaging calculation). For example, if the stress capital decline component of firm's 2024 supervisory stress test results showed a maximum common equity tier 1 capital ratio decline of 2.0 percentage points and this year's results showed a maximum common equity tier 1 capital decline of 4.0 percentage points, then that firm's stress capital decline component for purposes of the stress capital buffer requirement calculation would be 3.0 percentage points.

[30] Chopin, N., 2004. Central limit theorem for sequential Monte Carlo methods and its application to Bayesian inference (pp. 501-506).

framework.[31] For GSIBs, the analysis shows a reduction in volatility in stress capital buffer requirements of approximately 44 percent. This feature would preserve the ability of the supervisory stress test to vary with changing risks, while effectively phasing in any year-over-year changes to a firm's stress capital buffer requirement. Additionally, by using the prior year's results, firms would be better able to predict their upcoming capital requirements. Results averaging would mitigate large and sudden changes in capital requirements, thereby facilitating more robust capital planning and supporting the provision of banking services.

2. **Risk Sensitivity of Stress Capital Buffer Requirement**

A firm's stress capital buffer requirement should be aligned with the firm's risk profile. The stress capital buffer requirement is currently informed by the results of a single supervisory stress test, which, through supervisory models, considers the business profile of each firm under the severely adverse scenario. While results averaging would reduce the extent to which the stress capital buffer requirement reflects the current business profile of a firm and may lengthen the lag in recognition of changes in a firm's risk profile, results averaging would continue to measure how a firm's salient risks would behave under stressful conditions. Further, results averaging would smooth changes in requirements caused by short-term, temporary changes in risk profile.

3. **Components of Averaging Calculation**

Under the proposal, the stress capital buffer requirement would continue to include a firm's stress capital decline component and the dividend add-on component. While the stress capital decline component would be averaged over the prior two annual supervisory stress tests,

[31] The volatility of the stress capital buffer requirement is measured as the mean of the absolute value of the year-on-year change in the requirement. For more information on the overall impact of the proposal, *see* Section III.

the averaging calculation would not include the dividend add-on component. Unlike the stress capital decline component, the size of a firm's dividend add-on component is at the firm's discretion. While a firm must provide the amount of its dividend add-on component prior to knowing its stress capital decline component, the firm can revise its dividend add-on component after receiving its preliminary stress capital decline component informed by a given supervisory stress test. Due to these features, the Board is not proposing to include the dividend add-on component in its results averaging calculation.

A firm may also request reconsideration of its preliminary stress capital buffer requirement within fifteen calendar days of receipt of notice of a preliminary stress capital buffer requirement. The proposal would preserve a firm's ability to request reconsideration of its preliminary stress capital buffer requirement, with modifications to account for the incorporation of averaging into the stress capital buffer requirement calculation. In particular, the proposal would allow a firm to request reconsideration of the stress capital decline of the current capital plan cycle, which would be averaged with the stress capital decline of the previous capital plan cycle to form the stress capital decline component of the firm's stress capital buffer requirement, as applicable. As is the case under the current framework, the proposal would not allow firms to request reconsideration of a stress capital decline based on a previous year's supervisory stress test.

As previously mentioned, the Board currently phases in the effects of highly material supervisory model changes over a two-year period to mitigate sudden and unexpected changes to the supervisory stress test results.[32] This policy reduces volatility of stress test results as it relates to supervisory model changes but does not reduce volatility associated with the other

[32] *See* 12 CFR Part 252 Appendix B, section 2.3.

elements that determine a firm's stress test results (such as changes due to the paths of variables in the supervisory scenario or changes in a firm's balance sheet). Since the proposal would generally average changes to a firm's stress capital decline component, material supervisory model changes would in most cases mechanically be phased-in to the proposed calculation of the stress capital decline component in the same manner as under the current policy.[33] Therefore, the Board proposes to revise its Stress Testing Policy Statement to no longer specify that material supervisory model changes would be phased in over a two-year period.

4. **Averaging Period**

The proposal would average the stress capital decline component over two annual supervisory stress tests (current and previous year) to inform the stress capital buffer requirement, effective in the following year. Averaging over a longer period (for example, three consecutive annual supervisory stress tests) may further reduce volatility in stress capital buffer requirements. Based on supervisory stress test data from 2019 to 2024, averaging over three consecutive annual supervisory stress tests would reduce volatility in stress capital buffer requirements by roughly 40 percent relative to the current framework.[34] However, extending the averaging period would also reduce risk sensitivity because there is greater potential that a firm's stress capital buffer would incorporate economic or financial risks that are no longer pertinent to the firm and may include stale information on the condition of a firm's business and the exposures on its balance sheet. For example, if a firm sold a corporate loan portfolio two years

[33] Under the proposal, the effects of a material model change would be fully incorporated into a firm's stress capital buffer requirement if the firm receives a new stress capital buffer requirement that is not calculated using results averaging in a year when a material model change is implemented (that is, a stress capital buffer requirement that is not calculated using results averaging would incorporate the full effects of the model change because those effects would not be phased in over two supervisory stress testing cycles as they are under the current rule.)

[34] For more information on the alternatives for results averaging, see Section III.C.

ago, the inclusion of that portfolio in the firm's stress capital buffer requirement may no longer be reflective of the firm's risk profile. Similarly, if a firm expanded rapidly in a high-risk business or acquired riskier assets, a longer averaging period would be slower to reflect that increase in risk. Therefore, the proposal to average over two consecutive supervisory stress tests strikes a better balance to reduce volatility and retain risk sensitivity compared to averaging over a longer period.

5. **Symmetric Averaging**

The proposal would apply results averaging symmetrically with respect to increases and decreases in a firm's stress capital buffer requirement to reduce volatility in stress capital buffer requirements, as described in Section II.A.1 of this **Supplementary Information**. Relative to the current framework, under symmetrical results averaging a firm would be able to better project its stress capital buffer requirement for any given year and, therefore, could better prepare to maintain an appropriate level of capital, which would enable the firm to implement its capital actions and business decisions as needed. Further, results averaging for both increases and decreases would help ensure that all changes in stress capital buffer requirements caused by short-term, temporary changes due to any factor, such as changes in a firm's risk profile, would be incorporated in smaller increments, leading to a capital requirement better reflective of more sustained changes in business profile and risks.

Applying results averaging only to increases, but not to decreases, in a firm's stress capital decline component would be expected to result in a smaller reduction in volatility in the long run compared to symmetric averaging, because decreases in stress capital buffer requirements also contribute to volatility.[35] In addition, results averaging only for increases

[35] *See* Section III.D.1, Table 1.

would result in a somewhat lower average level of the stress capital buffer requirement, which could modestly reduce firms' average resilience to economic shocks.[36] For these reasons, the Board proposes to average results symmetrically to calculate a firm's stress capital buffer requirement.

6. **Applicability**

For firms subject to Category I–III standards, both the stress capital decline component and the dividend add-on component of the stress capital buffer requirement are updated every year. Because a firm subject to Category I–III standards is generally subject to the supervisory stress test every year, the proposed results averaging would generally apply for such firms.

Reflecting their lower risk profile, firms subject to Category IV standards are subject to the supervisory stress test on a biennial basis.[37] However, a firm subject to Category IV standards may elect to participate in the supervisory stress test in a year in which it is not

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[36] According to several studies, banking organizations with robust capital buffers are better positioned to absorb shocks and continue lending during periods of economic stress. *See, e.g.,* Berger, A.N. and Bouwman, C.H., 2013. How does capital affect bank performance during financial crises?. *Journal of Financial Economics*, 109(1), pp.146-176; Admati, A.R. and Hellwig, M.F., 2024. The Parade of the Bankers' New Clothes Continues: 44 Flawed Claims Debunked. *European Corporate Governance Institute–Finance Working Paper*, (951); Gale, D., 2010. The effects of bank capital on lending: What do we know, and what does it mean?. *International Journal of Central Banking*, *6*(34), pp.187-204*;* Berrospide, J.M. and Edge, R.M., 2024. Bank capital buffers and lending, firm financing and spending: What can we learn from five years of stress test results?. *Journal of Financial Intermediation*, *57*, p.101061; Carlson, M., Shan, H. and Warusawitharana, M., 2013. Capital ratios and bank lending: A matched bank approach. *Journal of Financial Intermediation*, *22*(4), pp.663-687; Aiyar, S., Calomiris, C.W. and Wieladek, T., 2014. Does macro-prudential regulation leak? Evidence from a UK policy experiment. *Journal of Money, Credit and Banking*, *46*(s1), pp.181-214; Ramcharan, R., Verani, S. and Van den Heuvel, S.J., 2016. From Wall Street to main street: the impact of the financial crisis on consumer credit supply. *The Journal of finance*, *71*(3), pp.1323-1356; Cohen, B.H. and Scatigna, M., 2016. Banks and capital requirements: channels of adjustment. *Journal of Banking & Finance*, *69*, pp.S56-S69.

[37] *See* Capital Planning and Stress Testing Requirement for Large Bank Holding Companies, Intermediate Holding Companies and Savings and Loan Holding Companies, 86 FR 7927 (February 3, 2021).

otherwise subject to such test.[38] The Board may also require such a firm to participate in the supervisory stress test in a year in which it is not otherwise subject to such test if the firm experiences a material change to its risk profile, financial condition, or corporate structure.[39] In years in which these firms do not participate in the supervisory stress test, the Board generally provides these firms with a stress capital buffer requirement that is updated only to reflect changes to the dividend add-on component.

Consistent with current requirements, the stress capital buffer requirement for a firm that does not participate in two consecutive annual supervisory stress tests would continue to be informed solely by the most recent supervisory stress test in which the firm participated.[40] If a firm subject to Category IV standards participates in two consecutive supervisory stress tests for any reason, then results averaging would apply under the proposal.

As discussed, the Board can recalculate a firm's stress capital buffer requirement if that firm experiences a material change.[41] In situations where a firm undergoes a material change, such as a merger or acquisition, results averaging as proposed may not be reflective of the significant changes to the firm's business and balance sheet, as the risk profiles of the firm could differ before and after the material change. Therefore, to maintain risk sensitivity, the Board

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[38] *See* 12 CFR 252.44(d)(2)(ii).

[39] *See* 12 CFR 252.44(d)(2)(i). For example, in the 2023 supervisory stress test, the Board required three firms subject to Category IV standards to participate.

[40] For example, a firm's 2026 stress capital buffer requirement would be solely based on the results of the 2026 supervisory stress test if the firm did not participate in the 2025 supervisory stress test.

[41] For purposes of this discussion, the term "material change" includes circumstances in which the Board, or the appropriate Reserve Bank with the concurrence of the Board, has directed a firm to resubmit its capital plan because its internal stress scenario(s) are not appropriate for the firm's business model and portfolios, or changes in financial markets or the macro-economic outlook that could have a material impact on a firm's risk profile and financial condition require the use of updated scenarios. 12 CFR 225.8(e)(4)(i)(B)(*3*); 12 CFR 238.170(e)(4)(i)(B)(*3*).

proposes not to use results averaging when recalculating a firm's stress capital buffer requirement because of a material change.[42] However, the Board generally would resume results averaging for the subsequent stress capital buffer requirement calculation if the stress capital decline components from that and the previous calculation both contemplate the material change. To align with the proposal to only average results over a two-year period, the Board would use averaging for a firm subject to Category IV standards when subject to a recalculated stress capital buffer requirement only if the recalculation and an annual supervisory stress test in which the firm participates occur within the same calendar year or in consecutive years.[43]

Question 03: What are the advantages and disadvantages of the proposed results averaging calculation, including the proposal to base the stress capital buffer requirement on the stress capital decline components from the prior two consecutive, annual supervisory stress tests?

Question 04: For firms subject to two consecutive, annual supervisory stress tests, the proposal would calculate the stress capital buffer requirement in three steps: (1) average the stress capital decline components from the two most recent annual stress tests; then (2) add the current dividend add-on component; and finally (3) apply, as applicable, the 2.5 percent floor, in that

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[42] In addition to a material change, the Board, or the appropriate Reserve Bank with the concurrence of the Board, may direct a firm to resubmit its capital plan where the capital plan is incomplete or contains material weaknesses. 12 CFR 225.8(e)(4)(i)(B)(*1*); 12 CFR 238.170(e)(4)(i)(B)(*1*). In circumstances where the Board recalculates a firm's stress capital buffer requirement following such a resubmission, the Board would use results averaging, because the risk profile of the firm is less likely to have changed materially over the period being averaged.

[43] For example, if a firm subject to Category IV standards had its stress capital buffer recalculated due to a material change in 2024 and did not participate in the 2025 supervisory stress test, then the calculation of the stress capital buffer requirement for that firm following the 2026 supervisory stress test would not be calculated by averaging the stress capital decline components from the 2024 recalculation and the 2026 supervisory stress test. Rather, the firm's stress capital buffer requirement would be informed solely by the stress capital decline component from the 2026 stress test.

order. What are the advantages and disadvantages of this approach? What alternative approaches should the Board consider for the calculation of the stress capital buffer requirements?

Question 05: What alternative approaches should the Board consider to reduce volatility in the stress capital decline component resulting from material supervisory model changes, particularly for a firm that is not subject to the supervisory stress test every year?

Question 06: What alternative approaches should the Board consider as it relates to results averaging if a firm undergoes a material change? What would be the advantages and disadvantages of these alternatives?

Question 07: What alternative approaches to requiring a firm to resubmit its capital plan should the Board consider in order to assess a firm's capital adequacy after it experiences a material change? What would be the advantages and disadvantages of these alternatives? What other options should the Board consider to address material changes, if any, and what would be their advantages and disadvantages?

Question 08: What would be the advantages and disadvantages of the Board no longer retaining authority to direct a firm to resubmit its capital plan in response to changes in financial markets or the macroeconomic outlook that could have a material impact on the firm's risk profile and financial condition? Under what circumstances, if any, should the Board be able to direct a firm to resubmit its capital plan? What would be the advantages and disadvantages of such approach?

Question 09: Under the current rule, a firm is subject to certain automatic consequences, such as seeking prior approval for capital distributions, resubmitting its capital plan, and having the

Board determine whether to recalculate the firm's stress capital buffer requirement, if it undergoes or expects to undergo a material change. The determination that a firm has undergone or expects to undergo a material change can be made by the firm or by the Board. What would be the advantages and disadvantages of removing some or all these automatic consequences? What other consequences (automatic or otherwise), if any, should the Board consider if a firm undergoes or expects to undergo a material change?

Question 10: Under what circumstances, if any, should the Board consider not using results averaging as proposed? What are the advantages and disadvantages of not using results averaging? What criteria should the Board consider in making a determination that results averaging should not be used?

Questions 11: What other approaches should the Board consider for mitigating volatility in the stress capital buffer requirements for firms subject to the results averaging proposal?

Question 12: What would be the advantages and disadvantages to averaging only the supervisory stress test results that would result in an increase in stress capital buffer requirements while immediately applying a decrease without averaging?

Question 13: Under what circumstances would firms not subject to two consecutive annual supervisory stress tests be more or less likely to opt-in to the supervisory stress test in an off-year as a result of the proposal? What other options should the Board consider to reduce volatility in the stress capital buffer requirements for such firms and why? For example, what are the advantages and disadvantages of averaging the two most recent stress capital declines for a firm that is not subject to two consecutive annual supervisory stress tests?

Question 14: For purposes of calculating a firm's stress capital buffer requirement using results averaging, what would be the advantages and disadvantages of giving more weight to the most recent stress capital decline than to the less recent (and therefore potentially staler) stress capital decline? If the Board decided to implement results averaging over a longer period to include firms that are not subject to two consecutive annual supervisory stress tests, what would be the advantages and disadvantages of differential weightings of the stress capital declines for these firms? If differential weighting were adopted, which would be the appropriate weights and why?

Question 15: What would be the advantages and disadvantages of first applying results averaging beginning with the stress capital buffer requirement following the 2026 supervisory stress test, instead of the 2025 stress test, as proposed?

Question 16: If results averaging is, as a general matter, first applied beginning with the stress capital buffer requirement following the 2026 supervisory stress test, what would be the advantages and disadvantages of allowing a firm to opt in to results averaging with respect to the stress capital buffer requirement that would become effective following the 2025 supervisory stress test?

B. Changes to the Effective Date of the Stress Capital Buffer Requirement and Dividend Add-on Component Calculation

1. Change Stress Capital Buffer Requirement Annual Effective Date to January

The Board is proposing to extend the annual effective date of the stress capital buffer requirement by one quarter for all firms subject to the requirement. As proposed, the effective date of a firm's updated stress capital buffer requirement would be moved to January 1 of the year immediately following the calendar year in which its capital plan was submitted, which

represents an extension of one quarter from the current effective date of October 1. This revision would help alleviate the impact of large changes in capital requirements by providing firms with additional time to comply with their updated stress capital buffer requirements. Providing an additional three months to meet a new stress capital buffer requirement would increase the firm's ability to make any adjustments in its capital planning and to further retain earnings to comply with the new requirement.

The Board considered alternative approaches to allow firms to comply with changes in their capital requirements, such as phasing in changes to the stress capital buffer requirement over two quarters or extending the effective date of the stress capital buffer requirement further past January 1. The Board did not propose these options as they would add complexity to the buffer framework and reduce the risk-sensitivity benefits of the stress capital buffer requirement, respectively.

Question 17: What are the advantages and disadvantages of moving the effective date of the stress capital buffer requirement from October 1 to January 1? What other alternative dates or approaches to modifying the effective date of the stress capital buffer requirement should the Board consider, and why? Please provide any rationale or data that may be helpful for the Board to consider.

Question 18: What would be the advantages and disadvantages of extending further (for example, to April 1) the effective date of the stress capital buffer requirement of firms subject to Category IV standards that do not opt in to the off-cycle stress test in order to provide additional time to address an unexpected result of the stress test?

2. **Amendment to Dividend Add-on Component Calculation**

The dividend add-on component of the stress capital buffer requirement comprises planned dividends in the fourth through seventh quarters of the planning horizon of the supervisory stress test.[44] A firm subject to Category I–IV standards generally receives each year a new stress capital buffer requirement, which generally becomes effective on October 1.[45] Under the current framework, the planned dividends that are incorporated in the stress capital buffer requirement align with the effective date of the stress capital buffer requirement (that is, October 1 is the first day of the fourth quarter of the planning horizon). The proposal would change the definition of the dividend add-on component to cover dividends issued in quarters five through eight, instead of four through seven, of the planning horizon of the supervisory stress test. This revision would maintain the alignment between the dividend add-on component and the one-year period during which the stress capital buffer requirement is effective. This proposed change is not intended to impact the overall size of the stress capital buffer requirement.

Question 19: What are the advantages and disadvantages of the proposed change to the dividend add-on component of the stress capital buffer requirement?

Question 20: Under the Board's capital rule, a firm is required to maintain risk-based capital ratios above its capital conservation buffer requirement, which includes its stress capital buffer requirement, in order to avoid restrictions on its capital distributions and certain discretionary bonus payments. What would be the advantages and disadvantages of modifying the capital rule

[44] *See* 12 CFR 252.42. The planning horizon for the supervisory stress test is nine consecutive quarters starting on the as of date of the supervisory stress test.

[45] *See* 12 CFR 225.8(h)(4)(ii)(A).

such that a firm could pay quarterly common stock dividends up to the amount included in the dividend add-on component even if a firm's capital level is within its capital conservation buffer requirement? How should the Board consider such a policy in cases where the firm, after subtracting the dividend add-on component, has a stress capital buffer requirement below the 2.5 percent stress capital buffer floor?

Question 21: What would be the advantages and disadvantages of removing the dividend add-on component from the calculation of a firm's stress capital buffer requirement?

Question 22: The Board seeks comment on all aspects of the dividend add-on component of the stress capital buffer requirement. Please provide any rationale or data that may be helpful for the Board to consider.

Question 23: What other changes should the Board consider to the supervisory stress test cycle that would improve the effectiveness and efficiency of the capital plan rule?

C. Regulatory Reports

1. FR Y-14 Reports

In addition to the changes discussed above, which do not directly impact any information collections, the Board proposes to revise the FR Y-14A/Q/M reports by refining the collection of information used to assess a firm's net income under stress, as described in the Paperwork Reduction Act section below. The proposed revisions would strengthen the Board's ability to evaluate components of a firm's net income in the supervisory stress test, which would allow for a more accurate calculation of a firm's stress capital buffer requirement. The proposed revisions would also remove several items that are no longer needed to conduct the supervisory stress test.

Question 24: What, if any, modifications should the Board consider to the FR Y-14A/Q/M reports to reduce regulatory burden while maintaining the ability to effectively perform the

supervisory stress test? For example, are there specific items on the FR Y-14A/Q/M reports that the Board should consider discontinuing? What would be the advantages and disadvantages of these changes to the FR Y-14A/Q/M reports?

III. Economic Analysis

The proposed changes to the Board's supervisory stress testing framework aim to reduce the volatility of capital requirements and provide more time for firms to adjust their capital plans in response to updated stress capital buffer requirements. These measures would allow firms to streamline their capital planning while maintaining adequate capital to withstand economic shocks. The Board evaluated the potential impacts of these changes on the affected firms and the broader economy.

The economic analysis is structured into four parts. The first part, an overview of the baseline, describes the current state of supervisory stress testing practices. The second part presents a discussion of the proposal. The third part presents a discussion of alternatives to the current approach. The fourth part presents estimated changes in the level and volatility of capital requirements resulting from the revised stress capital buffer calculation under the proposal and under reasonable alternatives and provides a detailed discussion of potential costs and benefits of the proposed changes.[46]

A. Baseline Analysis

The current framework (discussed in detail in Section I of this **Supplementary Information**) serves as the baseline for the economic analysis. The Board assessed the costs and

[46] For more information on the models and bank-provided data, see Board of Governors of the Federal Reserve System, *2024 Supervisory Stress Test Methodology* (March 2024), https://www.federalreserve.gov/publications/files/2024-march-supervisory-stress-test-methodology.pdf.

benefits of the proposal (discussed in detail in Section II of this **Supplementary Information**) and other policy alternatives (discussed below in Section III.C of this **Supplementary Information**) relative to this baseline.

Under the current framework, a firm's stress capital buffer requirement is determined based on the most recent supervisory stress test results and the dividend add-on component, and is floored at 2.5 percent of risk-weighted assets. Firms subject to Category I–III standards are subject to the supervisory stress test annually. Firms subject to Category IV standards are subject to the supervisory stress test on a two-year cycle, unless they choose, or are otherwise required, to be subject to the annual stress test. A firm's preliminary stress capital buffer requirement is set in June and its final stress capital buffer requirement generally becomes part of the firm's ongoing capital requirement on October 1. As a result, firms have approximately one quarter to comply with the updated requirement.

As discussed in Section I.C of this **Supplementary Information**, a firm's stress capital buffer requirement can change from year to year based on several factors. These factors include changes in the composition of a firm's risk profile, economic conditions since the previous stress test, the severely adverse scenario used in the supervisory stress test, and the supervisory models used in the supervisory stress test.

B. Proposal Relative to Baseline

As discussed in detail in Section II of this **Supplementary Information**, under the proposal, all the elements of the current framework would be maintained except that (1) a firm's final stress capital buffer requirement would be informed by both the current and prior year's supervisory stress test results; and (2) a firm would have until January 1, instead of October 1, to meet its stress capital buffer requirement.

A firm's stress capital buffer requirement would be set using the average of the maximum common equity tier 1 capital decline in the current year's stress test and the maximum common equity tier 1 capital decline in the prior year's stress test. Under the proposal, the stress capital buffer requirement would continue to be based on the most recent stress test results for most firms subject to Category IV standards, which are required to participate in the supervisory stress tests every other year. Moreover, regardless of a firm's category, a firm would have two quarters to comply with changes in the stress capital buffer requirement, compared to one quarter under the current framework.

C. Reasonable Alternatives

The Board has identified several alternatives to the proposal that could help firms better manage stress capital buffer requirement volatility while maintaining the benefits of the stress capital buffer requirement. These alternatives differ in (1) their approach to smoothing stress capital buffer requirement levels and (2) in their timelines for compliance. The following section discusses alternatives and explains how they differ from the baseline and the proposal.

1. Alternative 1: Current Framework with One-quarter Delay

This alternative deviates from the baseline in that firms would have until January 1, instead of October 1, to comply with their stress capital buffer requirements. It does not include results averaging. The calculation of stress capital buffer requirements and the rest of the supervisory stress testing process otherwise remain the same as in the current approach.

2. Alternative 2: Current Framework with Two-year Averaging

Under this alternative, all the elements of the current framework are maintained except the alternative applies results averaging over the previous two years. For firms that participate in the supervisory stress tests every other year, the stress capital buffer requirement is based on the

most recent stress test results. This alternative differs from the proposal in that the time to comply with a new stress capital buffer requirement is not extended by one quarter.

3. Alternative 3: Current Framework with Three-year Averaging

Under this alternative, all elements of the current framework are maintained except the alternative applies results averaging over the previous three years. For firms subject to annual supervisory stress tests, this means that the stress capital buffer requirement in the current year is based on the average of aggregate common equity tier 1 declines from their three most recent stress tests. For firms subject to Category IV standards that undergo supervisory stress tests every other year, this means that in the year that the firm is subject to the stress test, stress capital buffer requirements are based on the average of aggregate common equity tier 1 capital declines in the most recent stress test and the stress test that took place two years prior. In the year that the firm is not subject to the supervisory stress test, stress capital buffer requirements are, in effect, solely based on the results from the last year's test since the calculation considers the average of only one number. Under this alternative, if a firm does not participate in the stress test, the common equity tier 1 capital decline for that year is treated as a missing observation for the purposes of computing the firm's stress capital buffer. This alternative deviates from results averaging under the proposal, which applies over a two-year period.

4. Alternative 4: Current Framework with Asymmetric Two-year Averaging with One-quarter Delay

Under this alternative, all the elements of the current framework remain the same with two exceptions: (1) a firm would have until January 1, instead of October 1, to comply with their stress capital buffer requirements, and (2) a firm's final stress capital buffer requirement is informed by the current year's as well as last year's supervisory stress test results. If a firm's maximum common equity tier 1 capital decline projected in the current year's stress test is larger

than the projected decline in the prior year's stress test, then its stress capital buffer requirement would be based on the average of these two results. However, if the maximum common equity tier 1 capital decline projected in the current year's stress test is smaller than the decline in the prior year's stress test, the firm's stress capital buffer requirement would be based on only the current year's supervisory stress test results. This alternative deviates from the proposal, which would apply stress capital decline averaging on a symmetrical basis.

5. Alternative 5: Current Framework with Tailored Stress Test Averaging with One-quarter Delay

Under this alternative, all elements of the current framework are maintained except that (1) a firm would have until January 1, instead of October 1, to comply with its stress capital buffer requirement, and (2) results averaging would be applied (a) over the previous two years for firms that go through annual supervisory stress tests; and (b) up to three years for firms that go through supervisory stress tests once every two years. For firms subject to annual supervisory stress tests, this means that the stress capital buffer requirement in the current year is based on the average of aggregate common equity tier 1 capital declines from their two most recent stress tests. For firms subject to Category IV standards that undergo supervisory stress tests every other year, this means that in the year that a firm is subject to the stress test, its stress capital buffer requirement is based on the average of aggregate common equity tier 1 capital declines in the most recent stress test and the stress test that took place two years prior. In the year that the firm is not subject to the supervisory stress test, its stress capital buffer requirements is solely based on the results from the last year's test.[47] This alternative deviates from results averaging

[47] If such a firm were to opt-in to the stress test in a year it was not required to do so, its stress capital buffer would be based on the stress test declines in the year it opts in and the previous year's stress test; in the subsequent year, its stress capital buffer would be based on the stress test from that year and the test it opted in.

under the proposal and Alternative 2, which applies over a two-year period for all firms. It also deviates from results averaging under Alternative 3, which applies over a three-year period for all firms.

Question 25: Are there are other reasonable alternatives that the Board should consider in the Economic Analysis? What would the key benefits and costs of such alternatives be?

D. Analysis of Benefits and Costs

This section provides an assessment of the benefits and costs of the proposal and alternatives relative to the current framework. The proposal and alternatives presented in the previous sections have different costs and benefits that arise from their heterogenous implications for the volatility of the stress capital buffer requirement, its average level, its sensitivity to current risks, and the timeliness of stress capital buffer requirement revisions.

1. Estimated Changes in Stress Capital Buffer Requirement Outcomes Under the Proposal and the Alternatives

The Board recalculated stress capital buffer requirements using historical data to quantitatively describe what the stress capital buffer requirement results would have been under the proposal and each alternative. This analysis provides an understanding of how the proposed changes would have affected capital requirements in recent years. The results are presented in Table 1.

The analysis in Table 1 uses supervisory stress test results from 2018 to 2024.[48] This data is used to project stress capital buffer requirements under the proposal from 2020 to 2024 and compares them to the actual stress capital buffer requirements over this period. The sample

[48] Available on Board of Governors of the Federal Reserve System's website at https://www.federalreserve.gov/publications/dodd-frank-act-stress-test-publications.htm. The 2018-2019 stress test results have been adjusted to reflect the stress test assumption changes finalized in the rule that established the stress capital buffer.

includes all firms that received a stress capital buffer requirement in any given year, even if that firm was not subject to the supervisory stress test in that year. Results are presented as averages for each firm category and for the entire sample. The table reports average stress capital buffer requirements in percentage points, average year-over-year absolute changes in firm-specific stress capital buffer requirement levels in basis points, time in quarters to comply under each alternative, and average data-to-implementation gap in months.

Under the current framework and under alternatives that do not require averaging, a firm's stress capital buffer requirement in a given year is calculated as the common equity tier 1 ratio decline in the supervisory stress test plus the dividend-add on for that particular year,[49] and is floored at 2.5 percent. The dividend add-on is calculated by summing four quarters of projected common dividends and dividing that total by risk-weighted assets.

Under an averaging approach, a firm's stress capital buffer requirement for a given year is calculated as the average of the common equity tier 1 capital ratio declines observed in the supervisory stress tests of the current and previous years plus the dividend add-on for that particular year, with the result floored at 2.5 percent. Volatility is measured as the absolute value of the year-on-year change in the stress capital buffer requirement.

The average data-to-implementation gap is defined as the average time elapsed between the financial statements used for stress capital buffer requirement calculations and the effective date of those requirements. The stress test results published in June primarily use financial data from the previous December, with the resulting capital buffer becoming effective in October of

[49] Firms' dividend plans impact the estimates of volatility of the stress capital buffer. If changes in firms planned dividends move in opposite direction of the changes in stress test results, reliance on historical observations of the dividend add-on could overstate volatility under an averaging approach.

the same year. This process results in a time lag of 9 months. In contrast, a two-year averaging regime would incorporate financial statements from both the previous December and the December prior. This approach yields an average time lag of 15 months, calculated as the mean of 9 months (for the most recent data) and 21 months (for the older data). Further, extending the effective date by one quarter would add 3 months to the data-to-implementation gap calculation. In other words, the proposal, which involves two-year averaging and a one-quarter delay, would yield an average data-to-implementation gap of 18 months, calculated as the mean of 12 months for most recent data and 24 months for the older data.

As expected, options with averaging tend to feature less stress capital buffer requirement volatility, while options with delayed effective dates provide firms more time to comply. Another observation from this analysis is that the interaction of results averaging with the 2.5 percent floor can lead to a small reduction in the overall level of stress capital buffer requirements. Such a reduction can occur when the requirement for a specific firm is at the 2.5 percent floor one year and above the floor in another. This nonlinear effect affects firms whose stress capital buffer requirements fluctuate around the 2.5 percent floor rather than those that are consistently above or equal to the floor.[50]

Table 1: Estimated Stress Capital Buffer Requirement outcomes under baseline, proposal, and alternatives

	Average Stress Capital Buffer Requirement (percent)	Average Absolute Stress Capital Buffer Requirement Year-	Time to Comply (quarters)	Average Data-to-Implementation Gap

[50] The nonlinear effect reflects a mathematical result known as Jensen's inequality, which states that for a convex function, the function evaluated at the average of two or more values is less than or equal to the average of the function evaluated at those same values.

		over-Year Change (bps)		(months)
Baseline: Current Framework				
Category I	3.72	37	1	9
Category II-III	4.52	102		9
Category IV	3.40	48		15
Average	3.88	65		11
Proposal: One-quarter Delay and Two-year Averaging				
Category I	3.70	21	2	18
Category II-III	4.36	89		18
Category IV	3.41	44		18
Average	3.82	54		18
Alternative 1: One-quarter Delay, No Results Averaging				
Category I	3.72	37	2	12
Category II-III	4.52	102		12
Category IV	3.40	48		18
Average	3.88	65		14
Alternative 2: Two-year Averaging, No Delayed Effective Date				
Category I	3.70	21	1	15
Category II-III	4.36	89		15
Category IV	3.41	44		15
Average	3.82	54		15
Alternative 3: Three-year Averaging, No Delayed Effective Date				
Category I	3.74	21	1	21
Category II-III	4.22	53		21
Category IV	3.32	37		21
Average	3.74	39		21
Alternative 4: Asymmetric Two-year Averaging, One-quarter Delay				
Category I	3.61	25	2	18
Category II-III	4.21	85		18

Category IV	3.36	44		18
Average	3.73	54		18
Alternative 5: Tailored Stress Test Averaging with One-quarter Delay				
Category I	3.70	21	2	18
Category II-III	4.35	88		18
Category IV	3.32	38		22
Average	3.78	52		20

2. Cost and Benefit Analysis of Proposal Relative to Baseline

As shown in Table 1, the proposal reduces year-over-year changes in a firm's stress capital buffer requirement from an average of 65 basis points under the current framework to 54 basis points (or about 17 percent). The proposal would generally maintain the current average level of the stress capital buffer requirement. Under the proposal, the average stress capital buffer requirement would be 3.82 percentage points versus 3.88 percentage points under the current framework. Moreover, firms' estimated time to comply is one quarter more than under the current framework and the average data-to-implementation gap increases by seven months.

Costs:

The primary concern with this approach is the slower responsiveness of stress capital buffer requirements to changes in firm risk profiles and economic conditions. Averaging results over two years and incorporating a longer gap between the estimation of stress capital buffer requirement and their effective dates can result in a less timely requirement.

The proposed results averaging has an uneven impact across firm categories. While results averaging meaningfully reduces the volatility of the stress capital buffer requirements for firms subject to annual supervisory stress tests (as shown in Table 1), it offers minimal reduction in volatility to firms subject to biennial supervisory stress tests. These firms face less volatility

than others in the current framework as they are only subject to stress tests every other year. However, this does not mean firms subject to Category IV standards do not benefit from the proposed rule, as these firms could choose to be subject to results averaging by participating in consecutive annual supervisory stress tests. In addition, the one quarter delay feature of the proposed rule applies to firms of all categories.

Benefits:

The proposed rule provides more stable capital requirements for firms. By smoothing the impact of annual fluctuations in supervisory stress test results, firms may be able to develop more consistent long-term capital strategies. This stability could potentially lead to more sustainable lending and other financial intermediation practices and reduce the procyclical effects that sudden changes in capital requirements could have on firms and the U.S. economy. As discussed in Section 1.C of this Supplementary Information, the proposed rule would also reduce the likelihood of firms needing to take actions to meet a sharp increase in capital requirements.

Reduced volatility in capital requirements would mitigate the likelihood of firms needing to raise external capital, reduce dividends, and/or shrink balance sheets and the provision of banking services in response to an unexpected and material increase in the stress capital buffer requirement.

In addition, the extended timeline would further enable better planning and decision-making by firms. With an additional three months, firms can more thoroughly assess options for meeting their new stress capital buffer requirements, lessening the risk of a curtailment in credit provisioning or other services. Moreover, firms would have additional time to retain earnings and better prepare to manage large increases in stress capital buffer requirements before turning

to raising external financing or changing their business activities. In the long run, this extended compliance period could potentially lead to lower management buffers as well. As firms have more time to adjust and plan, they may feel less pressure to maintain large discretionary buffers to deal with stress capital buffer requirement uncertainty. The increased predictability and reduced time pressure could allow firms to operate with capital levels that more closely align with activities and risk exposures, improving capital efficiency without meaningfully affecting safety and soundness.

Question: What additional benefits or costs could be relevant for assessing the proposal? What additional data could be relevant for assessing such costs and benefits?

3. Cost and Benefit Analysis of Other Policy Alternatives

Alternative 1: Baseline with One-quarter Delay, No Results Averaging

Alternative 1 maintains the benefits and costs associated with the additional three months to meet changes in the stress capital buffer requirement, as discussed above. Reducing year-over-year fluctuations in capital requirements enhances predictability and stability for firms. However, merely postponing the implementation date does not alter the volatility of the stress capital buffer requirement. An advantage of this alternative relative to the proposed rule is, however, its simplicity. While maintaining the current risk sensitivity of the stress capital buffer requirement, this extension would benefit all firms subject to Category I–IV standards without significantly altering the current regulatory framework.

Overall, while this alternative is expected to provide positive net benefits compared to the baseline, it offers smaller net benefits than the proposal.

Alternative 2: Baseline with Two-year Averaging, No Delayed Effective Date

Alternative 2 maintains the benefits and costs associated with reduced volatility, as discussed above. However, it does not include the benefits and costs related to the added time to come into compliance with changes to the stress capital requirement. Particularly, this alternative offers minimal advantage to firms subject to biennial supervisory stress tests. The proposal, on the other hand, applies the same averaging method while granting an additional quarter to firms of all categories. The benefit of this approach over the proposal is more timeliness in the stress capital buffer requirement. Overall, while this alternative is expected to provide positive net benefits compared to the baseline, it offers smaller net benefits than the proposal.

Alternative 3: Three-year Averaging, No Delayed Effective Date

As shown in Table 1, this alternative reduces year-over-year changes in a firm's stress capital buffer requirement from an average of 65 basis points under the baseline to 39 basis points (or about 40 percent), while yielding a modest decline in the aggregate level of the stress capital buffer requirement, from an average of 3.88 percentage points under the baseline to 3.74 percentage points. The time firms have to comply with the new stress capital buffer requirement does not change under this alternative relative to the baseline.

Similar to the proposal and Alternative 2, the main drawback of Alternative 3 is reduced timeliness and sensitivity to current economic conditions and firm risk profiles. This alternative leads to an even higher time gap due to averaging over a longer time horizon, as shown by an average data-to-implementation gap of 21 months. This difference may lead to a more pronounced disconnect between regulatory requirements and the risks on firms' balance sheets, potentially lowering the effectiveness of the capital adequacy framework for firms.

This approach shares similar benefits as in the proposal and Alternative 2 in that by smoothing out the impact of annual fluctuations in stress test results, firms can develop more consistent, long-term capital strategies that potentially lead to more sustainable lending practices and reduce the effects that sudden changes in capital requirements might have on the broader economy. An additional benefit relative to the proposal and Alternative 2 is that the treatment of firms subject to Category IV standards would be more consistent with the approach for firms subject to Category I–III standards. These firms would benefit from an additional reduction in the volatility of their stress capital buffer requirements due to results averaging.

Alternative 4: Asymmetric Two-year Averaging with One-quarter Delay

Table 1 in this section D shows that the average year-over-year volatility decreases from 65 basis points under the baseline to 54 basis points under this alternative (a reduction of about 17 percent). This alternative modestly lowers the average stress capital buffer requirement levels relative to historical values (a reduction from 3.88 percent under the baseline to 3.73 percent under this alternative). The latter result indicates that, relative to the baseline, averaging only when common equity tier 1 capital declines in the stress tests are larger would lead to a lower overall level of stress capital buffer requirements.

Further, the results in Table 1 demonstrate that this alternative is similar in terms of reducing stress capital buffer volatility. This similarity can be attributed to two offsetting factors. First, asymmetric averaging does not smooth out decreases, which contribute to volatility. Thus, this factor increases volatility relative to the proposal. Second, the 2.5 percent floor becomes binding more frequently under this alternative, which reduces volatility relative to the proposal. The floor becomes binding more frequently because this alternative lowers the average level of the stress capital buffer, as explained above, making the floor more relevant.

Similar to the proposal, a cost of this alternative is slower responsiveness of stress capital buffer requirements to changes in firm risk profiles and economic conditions. Another cost of this alternative is that applying averaging only when stress losses are steeper would lead to modestly lower stress capital buffer requirements, on average. This could slightly lower the safety and soundness of covered firms.

An advantage of this method is its alignment with the asymmetric costs firms face when adjusting their capital in response to changing minimum requirements. While responding to increases in capital requirements can be costly and challenging for firms, especially over short periods, firms typically find it easier to adjust capital levels downward. This alternative acknowledges this asymmetry, allowing for more rapid capital reductions when risk decreases, while providing more time for firms to prepare against sudden, potentially disruptive increases in capital requirements when risks increase. As a result, this alternative may offer a less expensive framework for firms to manage their capital levels.

Alternative 5: Tailored Stress Test Averaging, No Delayed Effective Date

As shown in Table 1, this alternative reduces year-over-year changes in a firm's stress capital buffer requirement from an average of 65 basis points under the baseline to 52 basis points (or about 20 percent), while yielding a modest decline in the aggregate level of the stress capital buffer requirement, from an average of 3.88 percentage points under the baseline to 3.78 percentage points. The time firms have to comply with the new stress capital buffer requirement is extended by one quarter under this alternative relative to the baseline.

Alternative 5 shares the general costs and benefits of alternatives involving averaging. An additional benefit relative to the proposal is that firms subject to Category IV standards, which face less volatility in the current framework as they are only subject to stress tests every

other year, would benefit from a further reduction in stress capital buffer requirement volatility. Moreover, an advantage over the three-year averaging for all firms (Alternative 3) is that this method extends averaging results up to three years only to those firms subject to biennial supervisory stress tests. Consequently, it has a significantly smaller overall average gap between data collection and implementation.

The downside of this alternative relative to the proposal and alternatives that are based on two-year averaging is that for most firms subject to Category IV standards, this alternative would reduce the ability for a timely adjustment of stress capital buffer requirements in response to new risks or rapid shifts in the economic landscape.

IV. Administrative Law Matters

A. Paperwork Reduction Act Analysis

In accordance with the requirements of the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3521), the Board may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board reviewed the information collections related to the proposed rule under the authority delegated to the Board by OMB.

The proposed rule would not create any information collections subject to the PRA; however, the Board proposes to revise the FR Y-14 reports to improve supervisory stress test modeling and the calculation of stress capital buffer requirements by enhancing the collection of information used to assess a firm's risk profile. Specifically, the revisions would implement various changes that would isolate non-recurring expenses and increase the granularity of data on compensation expenses.

The Board invites public comment on the following information collection:

(a) Whether the collection of information is necessary for the proper performance of the Board's functions, including whether the information has practical utility;

(b) The accuracy of the Board's estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used;

(c) Ways to enhance the quality, utility, and clarity of the information to be collected;

(d) Ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and

(e) Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Proposal under OMB Delegated Authority to Extend for Three Years, With Revision, the Following Information Collection:

Collection title: Capital Assessments and Stress Testing Reports.

Collection identifier: FR Y-14A/Q/M.

OMB control number: 7100-0341.

General description of collection: This family of information collections is composed of the following three reports:

- The annual FR Y-14A collects quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.[51]
- The quarterly FR Y-14Q collects granular data on various asset classes, including loans, securities, trading assets, and pre-provision net revenue (PPNR) for the reporting period.

[51] In certain circumstances, a firm may be required to re-submit its capital plan. See 12 CFR 225.8(e)(4); 12 CFR 238.170(e)(4). Firms that must re-submit their capital plan generally also must provide a revised FR Y-14A in connection with their resubmission.

- The monthly FR Y-14M is comprised of three retail portfolio- and loan-level schedules, and one detailed address-matching schedule to supplement two of the portfolio- and loan-level schedules.

The data collected through the FR Y-14A/Q/M reports (FR Y-14 reports) provide the Board with the information needed to help ensure that large firms have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient, given their business focus, activities, and resulting risk exposures. The data within the reports are used in connection with setting firms' stress capital buffer requirements. The data are also used to support other Board supervisory efforts aimed at enhancing the continued viability of large firms, including continuous monitoring of firms' planning and management of liquidity and funding resources, as well as regular assessments of credit risk, market risk, and operational risk, and associated risk management practices. Information gathered in this collection is also used in the supervision and regulation of respondent financial institutions. Respondent firms are currently required to complete and submit up to 17 filings each year: one annual FR Y-14A filing, four quarterly FR Y-14Q filings, and 12 monthly FR Y-14M filings.[52] Compliance with the information collection is mandatory.

Current Actions: The proposal would modify the FR Y-14A/Q/M reports in order to collect additional information on a firm's pre-provision net revenue, which would improve the calculation of the firm's stress capital buffer requirement. Specifically, the proposed revisions would collect: (1) more granular data on compensation expenses, and (2) information on non-

[52] Holding companies that do not meet the materiality thresholds described in the instructions for the FR Y-14M are not required to file that report. This results in some holding companies submitting less than 17 filings each year.

recurring expenses. The proposed revisions would also remove items that are no longer needed to conduct the supervisory stress test. All proposed revisions would be effective for the December 31, 2025, report date.

Compensation Expenses

Total compensation expense is composed of salaries, variable pay, and employee benefits. The compensation structure for certain business lines, including financial advisors in a firm's wealth management business, is generally determined as a ratio of compensable revenue, which is a portion of total revenue attributable to the financial advisor. As a result, the key driver of compensation change is the amount of compensable revenue generated. During a period of economic stress, this form of variable pay may decline quickly. This differs from fixed compensation expenses, such as salaries, which tend to be more stable during periods of stress because a firm may take time to assess the severity of the downturn before determining if reductions are appropriate.

FR Y-14Q, Schedule G (PPNR) does not currently segment the portion of total compensation that is variable in a firm's business. Therefore, the supervisory stress test may not adequately consider the role of variable compensation or the correlation between compensation and compensable revenue. To ensure that the supervisory stress test results reflect this compensation structure, the Board proposes to add two new items to Schedule G (items 28.F (Compensable Revenues) and 28.G (Commissions from WM or FA activities)) to capture data on compensable revenues and commissions on the compensable revenues. For consistency between the FR Y-14Q and the FR Y-14A, the Board also proposes corresponding revisions to FR Y-14A, Schedule A.7.a (PPNR Projections).

Non-recurring Expenses

Non-recurring expenses are extraordinary or one-time expenses that are not expected to occur in the future. These expenses are distinct from recurring expenses which occur on a regular basis. The FR Y-14 reports do not currently adequately isolate expenses that are known to be due to one-time events.

As non-recurring expenses are not expected to repeat in the future, it may be appropriate to mitigate the influence of these expenses when calculating a firm's stress capital buffer requirement. To systematically identify non-recurring expenses related to business divestitures and the write-down of consolidated investment entities, the Board proposes to revise the instructions for FR Y-14Q, Schedule G.3 (PPNR Metrics), item 47 (Non-recurring PPNR items) to better capture these expenses. Capturing data on these non-recurring expenses would strengthen the risk sensitivity of the supervisory stress test since the Board would have a more comprehensive picture of a firm's expenses and net income.

Non-interest Income from Servicing Activities

The Board is also proposing to remove several items that capture information related to non-interest income from servicing activities. These items are no longer needed to conduct the supervisory stress test. Specifically, the Board proposes to remove the following items from FR Y-14A, Schedule A.7.a (PPNR Projections Sub-schedule) and FR Y-14Q, Schedule G.1 (PPNR Submission Worksheet):

- Item 14.J (Servicing & Ancillary Fees);
- Item 14.K (MSR Amortization);
- Item 14.L (MSR Value Changes due to Changes in Assumptions/Model Inputs/Other Net of Hedge Performance); and
- Item 14.M (Other).

In conjunction with these revisions, the Board proposes to revise the instructions for item 14.I (Servicing), on Schedule A.7.a and Schedule G, so that the instructions clearly indicate that all non-interest income related to servicing activities should be reported in item 14.I.

Frequency: Annually, quarterly, and monthly.

Respondents: Holding companies with $100 billion or more in total consolidated assets, as based on (1) the average of the firm's total consolidated assets in the four most recent quarters as reported quarterly on the firm's Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128) or (2) the average of the firm's total consolidated assets in the most recent consecutive quarters as reported quarterly on the firm's FR Y-9Cs, if the firm has not filed an FR Y-9C for each of the most recent four quarters.

Total estimated number of respondents: 35.

Total estimated change in burden: -35.

Total estimated annual burden hours: 761,804.

B. Regulatory Flexibility Act Analysis

The Board is providing an initial regulatory flexibility analysis with respect to this proposed rule. The Regulatory Flexibility Act (RFA)[53] requires an agency to consider whether the rules it proposes will have a significant economic impact on a substantial number of small entities.[54] In connection with a proposed rule, the RFA requires an agency to prepare and invite

[53] 5 U.S.C. 601 *et seq.*

[54] Under regulations issued by the U.S. Small Business Administration (SBA), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of $850 million or less. *See* 13 CFR 121.201. Consistent with the SBA's General Principles of Affiliation, the Board includes the assets of all domestic and foreign affiliates toward the applicable size threshold when determining whether to classify a particular entity as a small entity. *See* 13 CFR 121.103. As of December 31, 2024, there were approximately 2,364

public comment on an initial regulatory flexibility analysis describing the impact of the rule on small entities, unless the agency certifies that the proposed rule, if promulgated, will not have a significant economic impact on a substantial number of small entities. An initial regulatory flexibility analysis must contain (1) a description of the reasons why action by the agency is being considered; (2) a succinct statement of the objectives of, and legal basis for, the proposed rule; (3) a description of, and, where feasible, an estimate of the number of small entities to which the proposed rule will apply; (4) a description of the projected reporting, recordkeeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record; (5) an identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap with, or conflict with the proposed rule; and (6) a description of any significant alternatives to the proposed rule which accomplish the stated objectives of applicable statutes and minimize any significant economic impact of the proposed rule on small entities.

The Board has considered the potential impact of the proposed rule on small entities in accordance with the RFA. Based on its analysis and for the reasons stated below, the Board believes that this proposed rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing and inviting comment on this initial regulatory flexibility analysis. In connection with this proposal, the Board also proposes to make changes to the Board's reporting forms.

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small bank holding companies, approximately 85 small savings and loan holding companies, and approximately 451 small state member banks.

As discussed in detail above, the proposed rule would amend the Board's capital plan rule. Specifically, the proposal would amend the calculation of the Board's stress capital buffer requirement applicable to certain bank holding companies, savings and loan holding companies, U.S. intermediate holding companies of foreign banking organizations, and nonbank financial companies supervised by the Board to reduce the volatility of the stress capital buffer requirement. The proposal would use the average of the maximum common equity tier 1 capital declines projected in each of the Board's prior two annual supervisory stress tests to inform a firm's stress capital buffer requirement. The proposal would also extend the effective date of the stress capital buffer requirement by one quarter, to January 1, to provide additional time for firms to comply with the requirement. In addition, the proposal would make changes to the FR Y-14A/Q/M (Capital Assessments and Stress Testing) reports to collect additional net income data that would improve the accuracy of the stress capital buffer requirement calculation. The changes in the proposal are not expected to materially affect overall capital requirements and would reduce regulatory reporting burden.

As discussed in detail above, several statutory authorities, including the International Lending Supervision Act of 1983,[55] section 5(b) of the Bank Holding Company Act,[56] the International Banking Act,[57] section 10(g) of the Home Owners' Loan Act,[58] and section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)[59] (as

[55] *See* 12 U.S.C. 3902(1); 3907(a); 3909(a)(2).

[56] 12 U.S.C. 1844(b).

[57] *See* 12 U.S.C. 3106.

[58] *See* 12 U.S.C. 1467a(g)(1).

[59] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111–203, 124 Stat. 1376 (2010).

amended by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act[60]), provide authority for the Board's stress testing and stress capital buffer framework, including this proposed rule.

The International Lending Supervision Act of 1983 provides the Board with broad discretionary authority to set minimum capital levels for state member banks and certain affiliates of insured depository institutions, including holding companies, supervised by the Board.[61] Under section 5(b) of the Bank Holding Company Act, the Board may issue such regulations and orders relating to capital requirements of bank holding companies as may be necessary for the Board to carry out the purposes of the Bank Holding Company Act.[62] Foreign banking organizations with a U.S. subsidiary bank, branch, or agency are made subject by the International Banking Act to the provisions of the Bank Holding Company Act in the same manner as bank holding companies;[63] therefore, the Board is also authorized under section 5(b) of the Bank Holding Company Act to impose these requirements on those foreign banking organizations. Similarly, with regard to savings and loan holding companies, section 10(g) of the Home Owners' Loan Act authorizes the Board to issue such regulations and orders relating to capital requirements as the Board deems necessary and appropriate to carry out the purposes of the Home Owners' Loan Act.[64] Moreover, section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), as amended by section 401 of the Economic

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[60] Economic Growth, Regulatory Relief, and Consumer Protection Act, Pub. L. 115–174, 132 Stat. 1296 (2018).

[61] *See* 12 U.S.C. 3902(1); 3907(a); 3909(a)(2).

[62] 12 U.S.C. 1844(b).

[63] *See* 12 U.S.C. 3106.

[64] *See* 12 U.S.C. 1467a(g)(1).

Growth, Regulatory Relief, and Consumer Protection Act, requires the Board to establish risk-based capital requirements for large bank holding companies and nonbank financial companies supervised by the Board.[65] Additionally, section 165(i)(1) of the Dodd-Frank Act, as amended by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act, requires the Board to conduct an annual supervisory stress test of these large firms.[66]

The proposed rule would apply to bank holding companies, U.S. intermediate holding companies of foreign banking organizations, and savings and loan holding companies, each with at least $100 billion in total consolidated assets, as well as certain nonbank financial companies supervised by the Board and any other bank holding company or covered savings and loan holding company domiciled in the United States that is made subject to the capital plan rule by order of the Board.[67] The proposed rule would not apply to any small entities. Further, although the Board does not project there to be a direct impact to reporting, recordkeeping, or other compliance requirements as a result of the proposed rule, the Board also is proposing to revise the FR Y-14A/Q/M (Capital Assessments and Stress Testing) reports to refine the information collected to assess a firm's net income under stress. These reports are submitted by firms subject to the Board's capital plan rule requirements to which the proposed rule would apply; thus, the changes would not impact small entities. In addition, the Board is aware of no other Federal rules that duplicate, overlap, or conflict with the proposed changes to the capital rule. Accordingly, the Board believes that the proposed rule will not have a significant economic impact on a substantial number of small banking organizations supervised by the Board and, therefore,

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

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

[67] There currently are no entities with less than $100 billion in total consolidated assets subject to the capital plan rule.

believes that there are no significant alternatives to the proposed rule that would reduce the economic impact on small banking organizations supervised by the Board.

The Board welcomes comment on all aspects of its analysis.

C. Plain Language

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the notice of proposed rulemaking in a simple and straightforward manner and invites comment on the use of plain language. For example:

- *Is the material organized to suit your needs? If not, how could the Board present the proposed rule more clearly?*
- *Are the requirements in the proposed rule clearly stated? If not, how could the proposed rule be more clearly stated?*
- *Does the proposal contain technical language or jargon that is not clear? If so, which language requires clarification?*
- *Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed rule easier to understand? If so, what changes would achieve that?*
- *Is this section format adequate? If not, which of the sections should be changed and how?*
- *What other changes can the Board incorporate to make the proposed rule easier to understand?*

D. Providing Accountability Through Transparency Act of 2023

The Providing Accountability Through Transparency Act of 2023 (12 U.S.C. 553(b)(4)) requires that a notice of proposed rulemaking include the Internet address of a summary of not

more than 100 words in length of the proposed rule, in plain language, that shall be posted on the Internet website under section 206(d) of the E-Government Act of 2002 (44 U.S.C. 3501 note).

The proposal and such a summary can be found at *https://www.regulations.gov* and *https://www.federalreserve.gov/supervisionreg/reglisting.htm*.

List of Subjects

12 CFR Part 225

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities.

12 CFR Part 238

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities.

12 CFR Part 252

Administrative practice and procedure, Banks, Banking, Capital planning, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

Authority and Issuance

For the reasons stated in the preamble, the Board of Governors of the Federal Reserve System proposes to amend 12 CFR chapter II as follows:

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

1. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p-1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3906, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801, and 6805.

Subpart A—General Provisions

2. In § 225.8:

a. Redesignate paragraphs (d)(20) through (21) as (d)(21) through (22), respectively;

b. Add paragraph (d)(20);

c. Revise paragraphs (f)(1) through (2); and (f)(4);

d. Remove the text "fourth through seventh", wherever it appears and add, in its place the text "fifth through eighth";

e. Revise paragraph (h)(4)(ii)(A);

f. Revise paragraph (i)(1) and (i)(3)(i); and

g. Remove the text "fourth", and add, in its place the text "fifth" in paragraph (k)(2).

The revisions and addition read as follows:

§ 225.8 Capital planning and stress capital buffer requirement.

* * * * *

(d) * * *

(20) ***Stress capital decline*** means the ratio of a bank holding company's common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, as of the final quarter of the previous capital plan cycle, unless otherwise determined by the Board, minus the lowest projected ratio of the bank holding company's common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test.

* * * * *

(f) * * *

(1) ***General***.

(i) The Board will determine the stress capital buffer requirement that applies under 12 CFR 217.11 pursuant to this paragraph (f). For each bank holding company that is not a Category IV bank holding company, the Board will calculate the bank holding company's stress capital buffer requirement annually. For each Category IV bank holding company, the Board will calculate the bank holding company's stress capital buffer requirement biennially, occurring in each calendar year ending in an even number, and will adjust the bank holding company's stress capital buffer requirement biennially, occurring in each calendar year ending in an odd number. Notwithstanding the previous sentence, the Board will calculate the stress capital buffer requirement of a Category IV bank holding company in a year ending in an odd number with respect to which that company makes an election pursuant to 12 CFR 252.44(d)(2)(ii). The stress capital buffer requirement calculations described in this paragraph will be conducted using paragraphs (f)(2)(i) or (f)(2)(ii) of this section, as appropriate. The stress capital buffer requirement adjustment described in this paragraph will be conducted using paragraph (f)(4) of this section.

(ii) Unless otherwise determined by the Board, a stress capital buffer requirement that is recalculated pursuant to paragraph (f)(3) of this section will be calculated pursuant to the methodology in paragraph (f)(2)(ii) of this section, except that a stress capital buffer requirement that is recalculated following the resubmission of a capital plan pursuant to paragraph (e)(4)(i)(B)(1) of this section will be calculated pursuant to the methodology in paragraph (f)(2)(i) of this section.

(2) ***Stress capital buffer requirement calculation***.

(i) For a bank holding company that was subject to the annual supervisory stress test in the previous calendar year, a bank holding company's stress capital buffer requirement is equal to the greater of:

(A) The following calculation:

(1) The average of the stress capital decline of the current capital plan cycle and either the stress capital decline of the capital plan cycle for the previous calendar year or, if the bank holding company's currently effective stress capital buffer requirement was provided pursuant to paragraph (f)(3) of this section, the stress capital decline associated with that stress capital buffer requirement; plus

(2) The ratio of:

(i) The sum of the bank holding company's planned common stock dividends (expressed as a dollar amount) for each of the fifth through eighth quarters of the current planning horizon; to

(ii) The risk-weighted assets of the bank holding company in the quarter in which the bank holding company had its lowest projected ratio of common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test conducted in the current capital plan cycle; and

(B) 2.5 percent.

(ii) For a bank holding company that was not subject to the annual supervisory stress test in the previous calendar year, a bank holding company's stress capital buffer requirement is equal to the greater of:

(A) The following calculation:

(1) The stress capital decline of the current capital plan cycle; plus

(2) The ratio of:

(i) The sum of the bank holding company's planned common stock dividends (expressed as a dollar amount) for each of the fifth through eighth quarters of the current planning horizon; to

(ii) The risk-weighted assets of the bank holding company in the quarter in which the bank holding company had its lowest projected ratio of common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test conducted in the current capital plan cycle; and

(B) 2.5 percent.

* * * * *

(4) ***Adjustment of stress capital buffer requirement***. In each calendar year in which the Board does not calculate a Category IV bank holding company's stress capital buffer requirement pursuant to paragraph (f)(1) of this section, the Board will adjust the Category IV bank holding company's stress capital buffer requirement to be equal to the result of the calculation set forth in paragraph (f)(2) of this section, using the same values that were used to calculate the stress capital buffer requirement most recently provided to the bank holding company, except that the value used in paragraph (f)(2)(i)(A)(2)(*i*) or paragraph (f)(2)(ii)(A)(2)(*i*) of this section, as applicable, will be equal to the bank holding company's planned common stock dividends (expressed as a dollar amount) for each of the fifth through eighth quarters of the planning horizon as set forth in the capital plan submitted by the bank holding company in the calendar year in which the Board adjusts the bank holding company's stress capital buffer requirement.

* * * * *

(h) * * *

(4) * * *

(ii) * * *

(A) Be effective on January 1 of the year immediately following the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section; and

* * * * *

(i) * * *

(1) ***General.*** To request reconsideration of a stress capital buffer requirement, provided under paragraph (h) of this section, (specifically, the stress capital decline of the current capital plan cycle) a bank holding company must submit a written request for reconsideration.

* * * * *

(3) * * *

(i) A request for reconsideration must include a detailed explanation of why reconsideration should be granted (that is, why the stress capital decline of the current capital plan cycle should be reconsidered). With respect to any information that was not previously provided to the Federal Reserve in the bank holding company's capital plan, the request should include an explanation of why the information should be considered.

* * * * *

PART 238—SAVINGS AND LOAN HOLDING COMPANIES (REGULATION LL)

3. The authority citation for part 238 continues to read as follows:

Authority: 5 U.S.C. 552, 559; 12 U.S.C. 1462, 1462a, 1463, 1464, 1467, 1467a, 1468, 5365; 1813, 1817, 1829e, 1831i, and 1972; 15 U.S.C. 78*l*.

Subpart S—Capital Planning and Stress Capital Buffer Requirement

4. In § 238.170:

a. Redesignate paragraph (d)(18) as (d)(19);

b. Add paragraph (d)(18);

c. Revise paragraphs (f)(1) through (2), and paragraph (f)(4);

d. Remove the text "fourth through seventh", wherever it appears and add, in its place the text "fifth through eighth";

e. Revise paragraph (h)(4)(ii)(A);

f. Revise paragraph (i)(1) and (i)(3)(i); and

g. Remove the text "fourth", and add, in its place the text "fifth", in paragraph (k)(2).

The revisions and addition read as follows:

§ 238.170 Capital planning and stress capital buffer requirement.

* * * * *

(d) * * *

(18) ***Stress capital decline*** means the ratio of a covered savings and loan holding company's common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, as of the final quarter of the previous capital plan cycle, unless otherwise determined by the Board, minus the lowest projected ratio of the covered savings and loan holding company's common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test.

* * * * *

(f) * * *

(1) ***General***.

(i) The Board will determine the stress capital buffer requirement that applies under 12 CFR 217.11 pursuant to paragraph (f) of this section. For each covered savings and loan holding

company that is not a Category IV savings and loan holding company, the Board will calculate the covered savings and loan holding company's stress capital buffer requirement annually. For each Category IV savings and loan holding company, the Board will calculate the covered savings and loan holding company's stress capital buffer requirement biennially, occurring in each calendar year ending in an even number, and will adjust the covered savings and loan holding company's stress capital buffer requirement biennially, occurring in each calendar year ending in an odd number. Notwithstanding the previous sentence, the Board will calculate the stress capital buffer requirement of a Category IV savings and loan holding company in a year ending in an odd number with respect to which that company makes an election pursuant to 12 CFR 238.132(c)(2)(ii). The stress capital buffer requirement calculations described in this paragraph will be conducted using paragraphs (f)(2)(i) or (f)(2)(ii) of this section, as appropriate. The stress capital buffer requirement adjustment described in this paragraph will be conducted using paragraph (f)(4) of this section.

(ii) Unless otherwise determined by the Board, a stress capital buffer requirement that is recalculated pursuant to paragraph (f)(3) of this section will be calculated pursuant to the methodology in paragraph (f)(2)(ii) of this section, except that a stress capital buffer requirement that is recalculated following the resubmission of a capital plan pursuant to paragraph (e)(4)(i)(B)(1) of this section will be calculated pursuant to the methodology in paragraph (f)(2)(i) of this section.

(2) ***Stress capital buffer requirement calculation***.

(i) For a covered savings and loan holding company that was subject to the annual supervisory stress test in the previous calendar year, a covered savings and loan holding company’s stress capital buffer requirement is equal to the greater of:

(A) The following calculation:

(1) The average of the stress capital decline of the current capital plan cycle and either the stress capital decline of the capital plan cycle for the previous calendar year or, if the savings and loan holding company's currently effective stress capital buffer requirement was provided pursuant to paragraph (f)(3) of this section, the stress capital decline associated with that stress capital buffer requirement; plus

(2) The ratio of:

(i) The sum of the covered savings and loan holding company's planned common stock dividends (expressed as a dollar amount) for each of the fifth through eighth quarters of the current planning horizon; to

(ii) The risk-weighted assets of the covered savings and loan holding company in the quarter in which the covered savings and loan holding company had its lowest projected ratio of common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test conducted in the current capital plan cycle; and

(B) 2.5 percent.

(ii) For a covered savings and loan holding company that was not subject to the annual supervisory stress tests in the previous calendar year, a covered savings and loan holding company's stress capital buffer requirement is equal to the greater of:

(A) The following calculation:

(1) The stress capital decline of the current capital plan cycle; plus

(2) The ratio of:

(i) The sum of the covered savings and loan holding company's planned common stock dividends (expressed as a dollar amount) for each of the fifth through eighth quarters of the current planning horizon; to

(ii) The risk-weighted assets of the covered savings and loan holding company in the quarter in which the covered savings and loan holding company had its lowest projected ratio of common equity tier 1 capital to risk-weighted assets, as calculated under 12 CFR part 217, subpart D, in any quarter of the planning horizon under a supervisory stress test conducted in the current capital plan cycle; and

(B) 2.5 percent.

* * * * *

(4) ***Adjustment of stress capital buffer requirement***. In each calendar year in which the Board does not calculate a Category IV savings and loan holding company's stress capital buffer requirement pursuant to paragraph (f)(1) of this section, the Board will adjust the Category IV savings and loan holding company's stress capital buffer requirement to be equal to the result of the calculation set forth in paragraph (f)(2) of this section, using the same values that were used to calculate the stress capital buffer requirement most recently provided to the covered savings and loan holding company, except that the value used in paragraph (f)(2)(i)(A)(2)(*i*) or paragraph (f)(2)(ii)(A)(2)(*i*) of this section, as applicable, will be equal to the covered savings and loan holding company's planned common stock dividends (expressed as a dollar amount) for each of the fifth through eighth quarters of the planning horizon as set forth in the capital plan submitted by the covered savings and loan holding company in the calendar year in which the Board adjusts the covered savings and loan holding company's stress capital buffer requirement.

* * * * *

(h) * * *

(4) * * *

(ii) * * *

(A) Be effective on January 1 of the year immediately following the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section; and

* * * * *

(i) * * *

(1) ***General***. To request reconsideration of a stress capital buffer requirement, provided under paragraph (h) of this section, (specifically, the stress capital decline of the current capital plan cycle) a covered savings and loan holding company must submit a written request for reconsideration.

* * * * *

(3) * * *

(i) A request for reconsideration must include a detailed explanation of why reconsideration should be granted (that is, why the stress capital decline of the current capital plan cycle should be reconsidered). With respect to any information that was not previously provided to the Federal Reserve in the covered savings and loan holding company's capital plan, the request should include an explanation of why the information should be considered.

* * * * *

PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

5. The authority citation for part 252 continues to read as follows:

Authority: 12 U.S.C. 321-338a, 481-486, 1467a, 1818, 1828, 1831n, 1831o, 1831p-1, 1831w, 1835, 1844(b), 1844(c), 3101 *et seq.,* 3101 note, 3904, 3906-3909, 4808, 5361, 5362, 5365, 5366, 5367, 5368, 5371.

Appendix B to Part 252—Stress Testing Policy Statement

6. Amend appendix B to part 252 by removing and reserving section 2.3.

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By order of the Board of Governors of the Federal Reserve System.

Ann E. Misback,
Secretary of the Board.

Billing Code: 6210-01P