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Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement – Notice of Proposed Rulemaking

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The Federal Reserve Board has requested comment on a proposal designed to **reduce the volatility of the capital requirements** stemming from its annual stress tests. The proposal would achieve this primarily by **averaging the maximum common equity tier 1 capital declines from the prior two annual supervisory stress tests** to inform a firm's stress capital buffer requirement for firms subject to Category I-III standards. For firms subject to Category IV standards subject to biennial supervisory stress tests, results would not be averaged unless those firms voluntarily opt in to consecutive annual stress tests or are subject to consecutive annual stress tests due to a material change.

The proposal would also **extend the annual effective date of the stress capital buffer requirement from October 1 to January 1** of the following year, giving banks more time to adjust and plan. Additionally, the proposal includes targeted changes to regulatory reporting forms (FR Y-14 reports) to improve data collection for the stress test and remove unneeded items. Comments on the proposal are **due by June 23, 2025**.

The notice also states that the Board plans to issue proposals on the models it uses for its supervisory stress tests, as well as the supervisory scenarios used in those stress tests.

The current and future proposals are important because the Board uses stress test results to set the capital requirements for large banks. Among other things, we expect that this rulemaking project will help clarify the credit that **bank credit risk transfer ("CRT")** transactions receive under the stress test models.

Industry Overview

As mentioned in the recent edition of the *Cabinet*, capital management strategies continue to be a focus area for banks in 2025, even though regulatory capital rulemaking has taken a new direction in the U.S. The credit risk transfer ("CRT") market is maturing into a conversation reaching beyond capital implications to loan concentration management and potential return on equity benefits of reducing risk weighted assets. We frame these trends in the broader business context in **this linked report**.