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Federal Reserve proposes changes to capital planning and reporting

Initial perspectives on the Federal Reserve Board of Governors' (FRB) proposal to revise FR Y-14 reports

On April 17, 2025, the FRB invited comment on a proposal to modify the Capital Plan Rule and Stress Capital Buffer (SCB) requirement, introducing changes designed to enhance the predictability and stability of capital requirements for large banks with more than $100 billion in total assets.[1] By implementing two-year results averaging and extending compliance timelines, the FRB aims to mitigate volatility and provide a more stable regulatory environment. Furthermore, the revisions to the FR Y-14A/Q/M reports are intended to refine data collection, thereby improving the accuracy of SCB calculations. These changes include adding new data items on compensable revenues and removing unnecessary non-interest income items. As these proposals take shape, it is important for institutions to understand their implications and prepare for the adjustments effective from December 2025.

3 insights you should know:

Results averaging: The proposal to average banks' maximum common equity tier 1 (CET1) capital declines from current and prior year's stress tests aims to reduce volatility and improve predictability. This approach could lead to more stable capital requirements year-over-year.

Effective date extension: The Notice of Proposed Rulemaking (NPRM) extends the effective date of the SCB requirement from October 1 to January 1 providing firms with additional time to comply. This change is intended to alleviate the burden of implementing required capital changes within compressed timelines between supervisory stress tests.

Enhanced data collection for FR Y-14 reports: Revisions to the FR Y-14A/Q reports focus on pre-provision net revenue (PPNR) schedules and include collection of additional data on net income, and removing unnecessary items, to enhance the accuracy of SCB calculations. **Specific changes include:**

- Adding new data items to capture compensable revenues and commissions across FR Y-14Q and FR Y14-A.
- Revising FR Y-14Q instructions for non-recurring PPNR items to better identify expenses related to divestitures and write-downs.
- Removing unnecessary non-interest income items from servicing activities across FR Y-14Q and FR Y-14A.

3 considerations to evaluate:

1 **Impact on capital planning**: Firms should self-test how the proposed averaging of supervisory stress test results may influence capital planning, contingent capital or funding plans, and risk management strategies. Firms should consider adjustments in relevant forecasting models to reflect changes in data resulting from the proposed approach.

2 **Compliance timeline adjustments**: Firms should assess the need for adjustments to existing regulatory capital implementation and compliance timelines, as well as resource allocation. The extended timeline contemplated by the proposal may require a reevaluation of internal processes, reporting, and execution of key controls to ensure timely compliance with new requirements.

3 **Risk management and forecasting models**: Firms should incorporate new FR Y-14A/Q compensation-focused data items into existing risk management and QA processes for regulatory reporting as well as relevant PPNR forecasting models to ensure traceability and compliance with Schedule definitions. Data quality and consistency practices across the PPNR reporting schedules, as applicable (FR Y-14A, FR Y-14Q), should be prioritized, as well as staff training for updated reporting requirements.

Additional considerations:

Applicability of two-year supervisory stress test averaging: The two-year averaging approach is applicable to firms subject to annual supervisory stress testing, offering a more predictable capital requirement; however, firms subject to biennial stress testing may not fully benefit unless opting into consecutive annual tests, highlighting the need for strategic decision-making regarding participation.

Perspective on FRB's proposed approaches: The proposal introduces new methodologies for stress testing, including model updates and scenario adjustments. These revisions are part of broader changes to reduce volatility and improve predictability, enabling firms to better align their capital strategies with evolving regulatory expectations and economic conditions. In addition, although not expressly part of the recent proposal, the FRB has indicated that future proposals may be issued to improve transparency into supervisory stress testing models and to seek bank inputs regarding FRB-issued stress scenarios.

Endnotes

[1] Federal Reserve Board of Governors (FRB), "Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement," *Federal Register,* April 22, 2025.

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