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## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

July 2, 2025

Ms. Ann E. Misback  
Secretary of the Board  
Federal Reserve Board  
20th Street and Constitution Ave NW  
Washington, D.C. 20551

Dear Ms. Misback:

I write to comment on the Federal Reserve Board's ("Fed") proposed rule regarding its stress capital buffer ("SCB") framework (Docket No. R-1866, RIN 7100-AG92).<sup>1</sup> The proposed rule is yet another example of the Fed's looking out for Wall Street executives and shareholders at the expense of the American public. It would weaken the stringency of the Fed's stress testing framework and reduce loss-absorbing capital levels at the largest banks in the country – making the banking system more fragile at a moment when President Trump's chaos has the economy on the brink. It should be withdrawn, and the Fed should abandon its broader tear down of the stress testing regime.<sup>2</sup>

### **Comments on the Proposal**

The SCB was established in 2020 to integrate the stress testing and traditional capital frameworks.<sup>3</sup> The goal of the SCB framework is to ensure that big banks have sufficient capital to absorb severe losses, while still lending to businesses and households when they need it most. A firm's overall risk-weighted capital requirement generally consists of a 4.5% minimum, its SCB, and any applicable GSIB surcharge or countercyclical capital buffer. A firm's SCB is calculated by adding its projected losses under the annual stress tests with four quarters of planned dividends, and is floored at 2.5%.

Although the SCB framework could be a valuable mechanism for ensuring the resiliency of the largest banks, in 2020, President Trump's first Vice Chair for Supervision designed it in a

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<sup>1</sup> 12 CFR 225, 238, 252

<sup>2</sup> Board of Governors of the Federal Reserve System, "Due to evolving legal landscape & changes in the framework of administrative law, Federal Reserve Board will soon seek public comment on significant changes to improve transparency of bank stress tests & reduce volatility of resulting capital requirements," press release, December 23, 2024, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm>.

<sup>3</sup> Board of Governors of the Federal Reserve System, "Federal Reserve Board approves rule to simplify its capital rules for large banks, preserving the strong capital requirements already in place," press release, March 4, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200304a.htm>.

manner that actually reduced big bank capital requirements and undermined their resiliency.<sup>4</sup> Specifically, the 2020 final rule watered down key stress testing assumptions, including by eliminating a requirement that big banks pre-fund nine quarters of planned dividends and buybacks. Instead, the final rule required big banks to pre-fund only four quarters of dividends.<sup>5</sup> In addition, the 2020 final rule relaxed an assumption in the stress tests related to the growth of big banks during the stress testing horizon.<sup>6</sup> Instead of maintaining the existing assumption that firms would continue to grow during the stress testing horizon, as we hope they would during a crisis as they keep lending to the economy, the 2020 final rule assumed no balance sheet growth. This change further reduced required capital. The 2020 final rule also removed leverage ratio requirements, like the supplementary leverage ratio, from the stress tests altogether.<sup>7</sup>

Ultimately, these policy choices created a weak SCB that decreased big bank capital by roughly \$100 billion.<sup>8</sup> Now, Wall Street is back for more. Despite an April 17, 2025, commitment from the Fed that “these proposed [SCB] changes are not designed to materially affect overall capital requirements,” the proposal’s impact analysis, alternative policy options, and leading questions all suggest that the Fed is poised to violate that commitment, stemming from proposed changes to SCB averaging and the potential elimination of the SCB dividend add-on.<sup>9</sup>

### *SCB Averaging*

Under the current SCB framework, a firm’s SCB is re-calibrated each time the firm is stress tested. The proposed rule would instead average the firm’s last two years of stress testing losses when calculating a given year’s SCB. This change would make the SCB less “volatile” year-to-year. Put differently, it would provide more certainty to a firm regarding its SCB requirement year-to-year. Certainty is the opposite of what a stress test is designed to provide. Firms that do not have certainty as to the results of the stress tests will have more prudent risk management frameworks and fund themselves with more capital to ensure they meet their requirements.

Stress tests are not meant to predict the future. Every year the stress test uses a few economic scenarios out of the thousands of possibilities that could play out in reality. The goal of the stress tests is to ensure firms have robust capital planning frameworks and enough capital to remain resilient to a range of possible outcomes, not just to any one year’s stress testing scenario. A real-world financial shock does not provide big banks with a heads-up and advanced certainty on losses – and nor should the stress tests. With more certainty, firms will be less cautious and more aggressive in increasing their dividends and buybacks, depleting their capital. In addition, as the

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<sup>4</sup> Board of Governors of the Federal Reserve System, “Statement by Governor Brainard,” press release, March 4, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200304a.htm>.

<sup>5</sup> Federal Register, “Amendments to Capital Planning and Stress Testing Requirements for Large Bank Holding Companies, Intermediate Holding Companies and Savings and Loan Holding Companies,” <https://www.federalregister.gov/d/2020-22166>.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> Board of Governors of the Federal Reserve System, “Statement by Governor Brainard,” press release, March 4, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200304a.htm>.

<sup>9</sup> Board of Governors of the Federal Reserve System, “Federal Reserve Board requests comment on a proposal to reduce the volatility of the capital requirements stemming from the Board’s annual stress test results,” press release, April 17, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250417a.htm>.

Fed admits in the proposed rule, this approach would lead to a “slower responsiveness of stress capital buffer requirements to changes in firm risk profiles and economic conditions.”<sup>10</sup>

Even more concerning than this general averaging approach, the proposed rule includes an alternative policy option for consideration referred to as asymmetric averaging. Under this alternative, a firm would only use the two-year average stress testing losses if it results in a lower SCB requirement than the one-year result. If averaging would lead to a higher capital requirement – because the previous year’s losses were higher than the current year’s losses – the bank would instead use only the current year’s lower losses. There is absolutely no policy justification for this asymmetric approach, other than working backwards to ensure the weakest possible capital requirements and highest possible shareholder payouts for Wall Street. As the Fed cedes in the proposal, “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.”<sup>11</sup> Unlike many of the Trump Administration’s deregulatory proposals, which at least attempt to veil the dangerous changes under a false facade of reasonable policymaking, this alternative doesn’t even try.

### *SCB Dividend Add-On*

President Trump’s first Vice Chair for Supervision weakened the stress testing framework’s capital distribution assumptions when finalizing the SCB framework in 2020. Instead of requiring firms to pre-fund nine quarters of dividends and buybacks, the 2020 final rule reduced the requirement to just four quarters of dividends. Question 21 in the 2025 proposed rule asks: “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?”<sup>12</sup> Removing even this minimal dividend requirement would further weaken the SCB, reduce big bank capital requirements, and undermine the resiliency of the banking system. Procedurally, if the Fed is considering making this significant change, it should re-propose the rule with an updated impact analysis to provide the public an opportunity to comment – instead of discreetly slipping a question into this proposed rule and adopting the policy in a final rule.

### *Cost-Benefit Analysis*

President Trump’s financial regulators, including current Vice Chair for Supervision Bowman, have repeatedly touted the importance of cost-benefit analyses. Vice Chair Bowman, for example, has cited insufficient cost-benefit analyses when opposing rules that would promote lending to small businesses and households and strengthen the resilience of the banking system.<sup>13</sup> The cost-benefit analysis included in this deregulatory proposed rule, however, is non-existent. The cost-benefit section provides vague platitudes regarding alleged benefits and costs without any detailed analysis or effort to weigh the benefits and costs against one another. In addition,

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<sup>10</sup> Federal Register, “Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement,” <https://www.federalregister.gov/documents/2025/04/22/2025-06863/modifications-to-the-capital-plan-rule-and-stress-capital-buffer-requirement>.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> Governor Michelle Bowman, “Approaching Policymaking Pragmatically,” November 20, 2024, <https://www.federalreserve.gov/newsevents/speech/bowman20241120a.htm>.

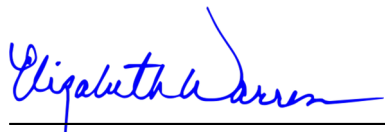
the proposed rule fails to describe how other proposals related to stress testing, Basel III, the GSIB surcharge, and enhanced supplementary leverage ratio intersect with this proposed rule. Even the scant analysis included in this proposed rule is already stale. The Fed announced its 2025 stress testing results on June 27, 2025, which would alter the now-outdated capital impact projections in this proposed rule.<sup>14</sup> The Fed should provide the public with updated analyses and allow for additional time to comment.

This proposed rule suggests that concerns like Vice Chair Bowman's about cost-benefit analysis – in the context of proposals to strengthen rules – may have been performative. The proposed rule, if enacted, would demonstrate that the analytical bar the Trump Administration relies on to deregulate Wall Street is drastically lower than the bar it uses to justify protecting small businesses, households, and the broader economy from Wall Street's recklessness.

### **Conclusion**

President Trump's economic chaos has put the economy on a cliff. The last thing the Fed should do in the coming months is undermine the resilience of the banking system, making big bank failures more likely. The Fed does not have a statutory obligation to maximize Wall Street dividends, share buybacks, and executive bonuses. It does, however, have a statutory obligation to promote the safety and soundness of the banking system and the stability of the broader financial system. The public relies on a stable banking system to finance homes, cars, and businesses. This proposed rule, like many others promulgated by the Trump Administration, increases the likelihood of another financial crash and more Wall Street bailouts. The Fed should withdraw this proposed rule and end its assault on Wall Street safeguards.

Sincerely,



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Elizabeth Warren  
Ranking Member  
Committee on Banking,  
Housing, and Urban Affairs

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<sup>14</sup> Board of Governors of the Federal Reserve System, "Federal Reserve Board's annual bank stress test showed that large banks are well positioned to weather a severe recession, while staying above minimum capital requirements and continuing to lend to households and businesses," press release, June 27, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627b.htm>.