ISDA, SIFMA Comments on Stress Capital Buffer Requirement Proposal

NEW YORK, June 23, 2025 – The International Swaps and Derivatives Association, Inc. (ISDA) and the Securities Industry and Financial Markets Association (SIFMA) today submitted a comment letter on a proposal by the Federal Reserve Board of Governors to revise its capital plan rule and stress capital buffer requirement (SCB).

In the letter, ISDA and SIFMA commend the Board for initiating efforts to address longstanding and unwarranted volatility of the SCB, primarily by averaging SCB results over a two-year period. However, the letter notes the proposal fails to address more fundamental drivers of SCB volatility, including the implausibility of the supervisory stress scenarios and the overlap with the risk-based capital framework.

"These core issues lead to SCBs that are not only excessively volatile but also not reflective of underlying risks," ISDA and SIFMA wrote in the letter. "The combination of excessive volatility and miscalibration relative to underlying risks constrains large banking organizations' capacity to intermediate the US capital markets and support economic growth. As such, broader and more material reforms that address these fundamental issues are required to ensure the supervisory stress testing framework remains relevant and effective."

To that end, the letter highlights the following key recommendations:

- **A banking organization should be permitted, for the 2025 stress testing cycle, to have its SCB requirements determined under the current SCB rule through September 30, 2026, regardless of whether the proposal is finalized with an effective date on or prior to October 1, 2026**. Additionally, the final rule – if it becomes effective January 1, 2026 – should clarify that the SCB requirement effective through September 30, 2026 would apply through December 31, 2026.
- **An asymmetric averaging approach should be adopted to determine the SCB requirement**. Asymmetric averaging of two-year supervisory stress test results would enable SCB requirements to adapt quickly to reduced risks and allow large banking organizations time to manage increased risks, resulting in efficient capital allocation. By contrast, simple averaging would not allow firms to deploy capital to the same extent in response to reduced risks, because the prior year's results, reflective of a higher risk environment, would flow through into the current year's SCB.
- **The dividend add-on component should be removed from supervisory stress tests**. The dividend add-on component is conceptually inconsistent with the maximum payout ratio requirement under the capital rules and should be removed from supervisory stress tests.

- **The supervisory stress testing framework includes assumptions that are not consistent with post-crisis reforms or market practice.** The current supervisory stress testing framework, which dates to early 2009, does not account for the risk-mitigating benefits of these post-crisis financial reforms and strengthened risk management practices, while also relying on assumptions that often contradict the requirements of these reforms. As such, the current supervisory stress testing framework is conceptually incoherent with the broader post-crisis reforms and not fit for purpose.
- **The supervisory stress testing framework is conceptually inconsistent with the risk-weighted asset (RWA) framework**. The current US capital rules stipulate that large banking organizations must calculate certain RWAs to reflect stressed market conditions. As a result, stress losses arising from capital markets-related activities are captured by both the market risk and counterparty credit risk framework, as well as the supervisory stress testing framework's GMS/LCD components. The US III endgame proposal also would apply the SCB to the RWA framework, exacerbating the overlaps between the RWA framework and the supervisory stress testing framework. The Board should reform both the supervisory stress testing framework and the RWA framework to ensure their conceptual consistency.

"We are strongly committed to maintaining the safety and efficiency of US financial markets and hope the agencies implement our recommendations, which reflect the extensive knowledge and experience of market professionals within the associations and our members," ISDA and SIFMA concluded in their letter. "Our recommendations are designed to make the US capital framework more risk sensitive to avoid the potential adverse consequences of the proposal on financial markets, consumers, end users and the economy more generally."

The full comment letter expands on these issues in more detail and can be found here: https://www.sifma.org/resources/submissions/letters/modifications-to-the-capital-plan-rule-and-stress-capital-buffer-requirement-rin-7100-ag92-sifma-and-isda/

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About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

About SIFMA

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.