

Date: [Insert Date]

To: Chief Executive Officers and Boards of Directors of All Supervised Financial Institutions

Subject: Interagency Supervisory Guidance on Capital Adequacy and Stress Testing

1. Purpose

The purpose of this letter is to provide updated guidance regarding the expectations of the [Agency Name 1], [Agency Name 2], and [Agency Name 3] (collectively, the agencies) concerning capital adequacy and stress testing practices at supervised financial institutions.

2. Background

The agencies emphasize that maintaining a robust level of capital is essential to ensuring the safety and soundness of the banking system. This guidance outlines the fundamental principles for a sound capital planning process and the integration of stress testing into long-term strategic decisions.

3. Capital Adequacy Expectations

Institutions are expected to hold capital commensurate with the level and nature of all risks to which they are exposed. This includes:

- Maintaining capital levels above regulatory minimums.
- Considering the potential impact of adverse economic conditions on earnings and capital ratios.
- Ensuring capital planning is overseen by the board of directors.

4. Stress Testing Framework

Institutions should implement a stress testing framework that is proportionate to their size, complexity, and risk profile. Key elements include:

- Use of plausible adverse scenarios.
- Clear documentation of methodologies and assumptions.
- Regular validation of stress testing models.
- Integration of stress test results into capital distribution plans and risk appetite statements.

5. Supervisory Review

The agencies will evaluate the effectiveness of an institution's capital planning and stress testing during regular examinations. Weaknesses in these processes may result in supervisory action, including requirements to increase capital buffers or restrictions on capital distributions.

6. Contact Information

Questions regarding this guidance should be directed to your primary regional supervisory office.

Sincerely,

[Signature]

[Name of Official]

[Title]

[Agency Name]