

Date: [Insert Date]

To: [Recipient Name/Regulatory Body]

From: [Your Name/Organization Name]

Subject: Justification for Severely Adverse Scenario Assumptions

Dear [Recipient Name],

This letter serves as the formal justification for the parameters and assumptions utilized in the "Severely Adverse Scenario" for the [Insert Year] stress testing cycle. The scenarios defined herein are designed to test the resilience of [Organization Name] against extreme but plausible economic and operational shocks.

1. Scenario Overview

The selected scenario assumes a simultaneous [Insert Primary Driver, e.g., Global Market Crash/Systemic Liquidity Failure] coupled with [Insert Secondary Driver, e.g., Hyperinflation/Protracted Recession].

2. Key Macroeconomic Assumptions

The model incorporates the following severe shifts:

- GDP Growth: A decline of [X]% over [X] quarters.
- Unemployment Rate: A peak of [X]%.
- Interest Rates: [Describe movement, e.g., sudden 300bps increase/decrease].
- Asset Valuation: A [X]% haircut across [Specific Asset Class].

3. Methodology and Risk Transmission

These assumptions are justified based on [Insert Basis, e.g., Historical Data from 2008/Specific Forward-Looking Vulnerabilities]. We have mapped these shocks to our primary risk drivers, specifically affecting our [Insert Department/Portfolio, e.g., Commercial Loan Book/Liquidity Reserve].

4. Severity Assessment

We have determined these conditions to be "Severely Adverse" as they exceed the 99th percentile of historical volatility, ensuring that capital adequacy and recovery plans are tested under maximum stress conditions.

5. Conclusion

The management team confirms that the assumptions used are robust, internally consistent, and meet all regulatory requirements for stress testing integrity.

Sincerely,

[Signature]

[Name of Authorized Officer]
[Title]
[Organization Name]