Date: [Insert Date]

To: [Board of Directors / Senior Management]
[Institution Name]
[Institution Address]

Subject: Supervisory Letter regarding Market Risk Stress Testing Framework

Dear [Name/Title],

This letter provides the formal results of the recent supervisory review conducted by [Regulatory Authority] regarding the market risk stress testing practices at [Institution Name].

1. Executive Summary
The review assessed the adequacy of the institution's stress testing methodologies, scenario selection, and integration into the broader risk management framework. While the institution maintains a foundational framework, specific areas require immediate remediation to align with regulatory expectations.

2. Key Observations and Findings

- **Scenario Severity:** Current stress scenarios do not sufficiently account for extreme tail-risk events or prolonged periods of market illiquidity.
- **Data Integrity:** Issues were identified regarding the granularity and timeliness of market data used in risk factor sensitivity analysis.
- **Model Validation:** The independent validation process for stress testing models lacks sufficient rigor and documentation of underlying assumptions.
- **Governance:** There is a need for clearer evidence of how stress testing results directly influence capital allocation and limit-setting decisions.

3. Required Actions
[Institution Name] is required to submit a comprehensive remediation plan by [Insert Date]. This plan must include:

- Updated methodologies for historical and hypothetical scenario design.
- A timeline for enhancing data infrastructure.
- A revised governance structure for senior management oversight of stress results.

4. Conclusion
Failure to address these findings may result in [Insert Regulatory Consequence, e.g., higher capital add-ons]. We request a meeting to discuss these findings further on [Insert Date].

Sincerely,

[Signature Block]
[Name of Lead Examiner]

[Title]
[Regulatory Authority Name]