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The CCAR drive

Strategic guide for US regional banks entering Category IV

by S&P Global

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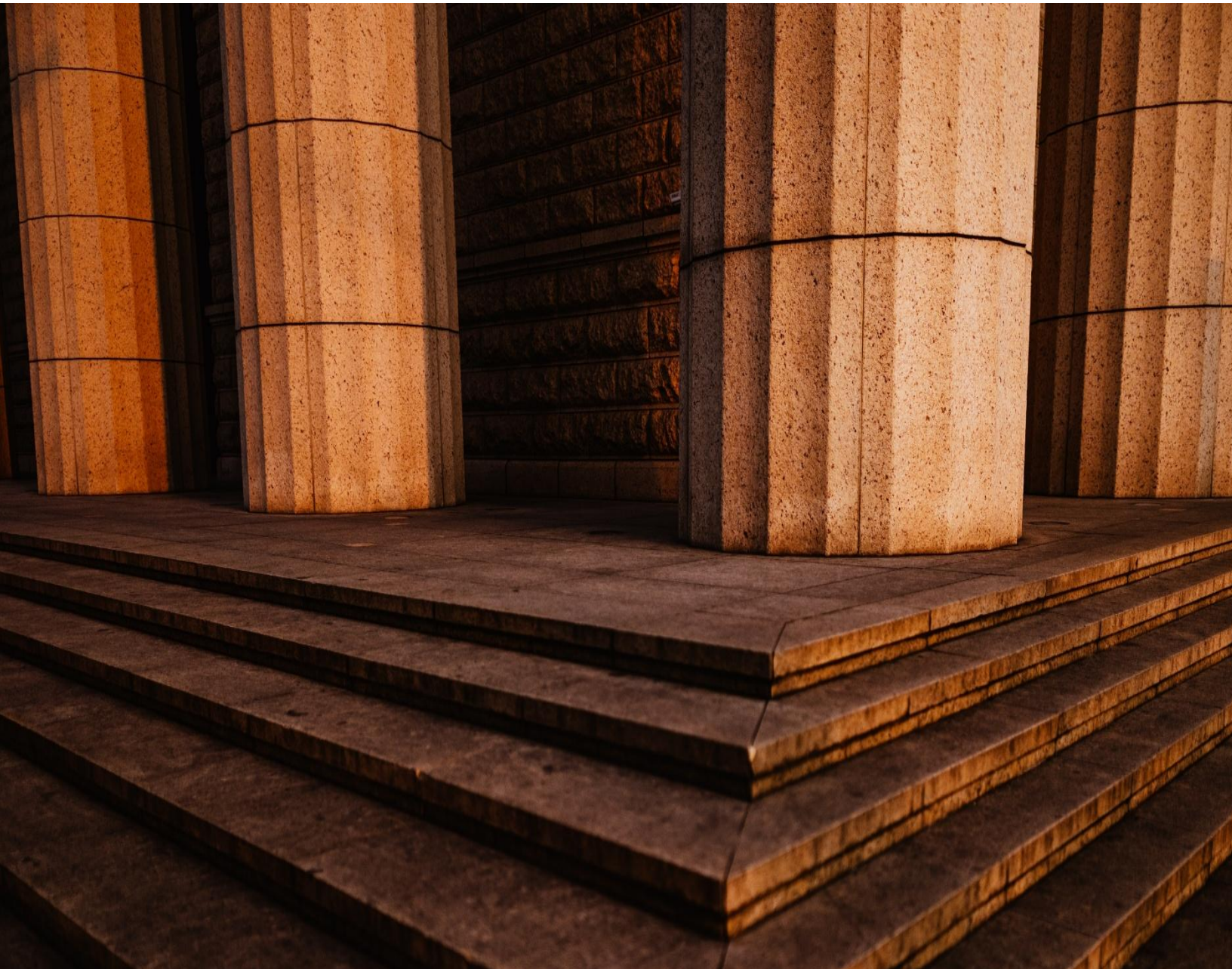
Before the regulatory clock starts ticking…

Regional banks in the United States **nearing $100 billion in total consolidated assets** should already be preparing for the **Comprehensive Capital Analysis and Review (CCAR)**, rather than waiting for the regulatory clock to start ticking.

Crossing the $100 billion threshold places institutions under **Category IV supervision, as per the Federal Reserve's (Fed) enhanced prudential standards**, triggering participation in supervisory stress testing and expanded capital planning requirements.

For many mid-sized banks, the transition from traditional risk management frameworks to the highly structured **CCAR ecosystem—encompassing stress testing, capital planning, regulatory reporting and governance—**is a multi-year transformation effort.



CCAR requirements for Category IV banks

Participating in CCAR goes far beyond running a stress scenario—it requires a fully integrated enterprise capital planning framework that combines data infrastructure, quantitative modeling, regulatory reporting and governance.

CCAR requirement	Description	Key implications for Category IV banks	Capability required
Supervisory stress testing (Dodd-Frank Act stress tests/ CCAR)	Projection of losses, revenues, balance sheet evolution and capital ratios based on the Fed's baseline and severely adverse macroeconomic scenarios across nine quarters	Category IV banks participate in supervisory stress testing in even-numbered years, requiring robust scenario analysis and enterprise-wide forecasting capabilities	• Credit loss forecasting models: probability of default (PD), loss given default (LGD) and exposure at default (EAD) • Pre-provision net revenue (PPNR) forecasting models • Balance sheet and risk-weighted asset (RWA) projection models • Scenario analysis and macroeconomic modeling frameworks
FR Y-14 regulatory reporting	Detailed regulatory reporting frameworks, including FR Y-14A (annual capital plan) and FR Y-14Q (quarterly portfolio data) submissions covering loan-level exposures, stressed projections and capital planning data	Building the data sourcing, mapping and reconciliation pipelines often requires 18-24 months of technology and data infrastructure development	• Enterprise data warehouse or stress data mart • FR Y-14 data mapping and extract, transform and load (ETL) pipelines • Data governance, lineage and quality controls • Automated reconciliation with finance and risk systems
Capital plan submission	An annual Board-approved capital plan submitted to the Fed, describing capital adequacy, internal stress testing results and planned capital actions, such as dividends, share buybacks and issuances	The Fed evaluates both quantitative capital projections and qualitative strength of governance, controls and capital planning processes	• Integrated capital planning framework • Scenario-based capital forecasting tools • Board-level capital governance processes • Integration with Internal Capital Adequacy Assessment Process (ICAAP) and strategic planning
Stress capital buffer (SCB)	A bank-specific capital buffer determined by the Fed based on the maximum decline in the common equity tier 1 (CET1) ratio under the severely adverse stress scenario	The SCB is added to the minimum 4.5% CET1 requirement and has a floor of 2.5% of RWAs, directly affecting dividend and buyback capacity	• Capital ratio forecasting engines • Stress capital management tools • RWA forecasting capability • Capital optimization analytics
Model risk governance	All CCAR models must comply with SR 11-7 model risk management (MRM) guidance, ensuring conceptual soundness, empirical validation and governance oversight	Regulators scrutinize model development, validation, documentation and performance monitoring as part of the CCAR qualitative review	• MRM framework • Independent model validation processes • Model inventory and documentation standards • Ongoing model monitoring and governance

Source: Federal Reserve Board - Stress Tests | Federal Reserve Board - Reporting Forms | Federal Reserve Board - Annual Large Bank Capital Requirements | https://www.federalregister.gov/

Highlights of CCAR 2026 scenarios

The Fed finalized the 2026 supervisory stress test scenarios on February 4, 2026. The scenarios project 28 macroeconomic and financial variables across nine quarters (January-March 2026 to January-March 2029), anchored to data for October-December 2025. For banks preparing for CCAR, the 2026 cycle provides important signals related to greater transparency, calibrated stress severity and enhanced capital stability.

Variable	2026 (severely adverse)	2025	Commentary
Peak unemployment rate	~10%	~10%	An increase of ~5.5-percentage points; less steep path due to a higher starting point of ~4.6%
Real gross domestic product (GDP) contraction	~4.6%	~5%	Milder path: Okun's law now drives a more dynamic link between GDP and unemployment
House price decline	~30%	~33%	Moderated; adjusted for current price-to-income ratios
Commercial real estate (CRE) decline	~39%	~40%	Steep; the sector's vulnerabilities remain a key stress driver
Equity market decline	~58%	~45%	More severe; reflects elevated market levels ahead of shock
VIX peak	~72	~65	Amplified volatility: BBB spreads widen ~4.7 percentage points
GMS risk factor	~2,300	20,000+	Significantly simplified for transparency and reproducibility
SCB methodology	Two-year average	Single year	New averaging mechanism reduces year-on-year capital volatility
Scenario horizon	Q1 2026-Q1 2029	Nine quarters	Standard nine-quarter horizon maintained

Notes:

I. Values represent approximate peak or cumulative changes derived from the Fed scenario paths.

II. Category IV banks participate in supervisory stress testing on a biennial basis (in even-numbered years).

Source: The Fed - 2026 Stress Test Scenarios | The Fed - 2025 Stress Test Scenarios

CCAR readiness faces headwinds

Although awareness of CCAR requirements is increasing, banks need to overcome numerous challenges.

Challenge	Details	Why it matters for CCAR	Typical issues observed
Fragmented data infrastructure	Exposure, collateral, counterparty and financial data reside across multiple systems, such as loan servicing platforms, treasury systems, counterparty credit risk engines and finance general ledgers (GLs), with inconsistent definitions and formats	CCAR requires granular, reconciled and auditable data for FR Y-14 submissions and stress testing. Lack of integration leads to data breaks and reconciliation issues	• Inconsistent exposure values between risk and finance • Manual data stitching across systems • Inability to trace data lineage for FR Y-14 fields • Late identification of data gaps during submission cycles
FR Y-14 data complexity and granularity underestimated	Banks underestimate the effort required to source, map and validate loan- and portfolio-	FR Y-14 is one of the most data-intensive regulatory frameworks, requiring high granularity and strict	• Missing historical data (over five years) • Frequent data validation failures

Challenge	Details	Why it matters for CCAR	Typical issues observed
	level data across all FR Y-14 schedules	reconciliation with financial statements	• High dependence on manual adjustments • Submission delays
Over-reliance on end-user computing (EUC)/ spreadsheet-based models	Stress testing and forecasting rely heavily on Excel-based models and manual calculations, lacking scalability and control	CCAR requires repeatable, auditable and scalable modeling frameworks capable of handling multiple scenarios and large datasets	• Version control issues • Inconsistent model outputs across runs • Lack of audit trail • Limited ability to run sensitivity analysis
Inadequate stress testing models	Existing models (e.g., Basel or current expected credit loss models) are often repurposed without incorporating macroeconomic drivers or forward-looking stress behavior	CCAR models must be scenario-sensitive, forward-looking and regulator-defensible, not just through-the-cycle estimates	• Weak linkage between macro variables and model outputs • Unrealistic loss projections under stress • Adverse model validation findings • Regulatory challenge on methodology
Weak capital planning integration	Stress testing outputs are not fully integrated into capital planning, ICAAP and business strategy decisions	CCAR requires a fully integrated capital planning framework, linking stress outcomes to capital actions and strategic decisions	• Disconnect between stressful results and dividend decisions • Limited SCB sensitivity analysis • Ad hoc capital planning processes
Governance and control gaps	Lack of structured governance across model validation, internal audit and Board oversight. Roles and responsibilities are often unclear	The Fed places strong emphasis on qualitative assessment, including governance, controls and documentation	• Incomplete model documentation • Weak board oversight • Adverse audit findings during parallel runs • Lack of clear accountability
Weak MRM capability	Incomplete implementation of SR 11-7 requirements, including model inventory, validation and ongoing monitoring	All CCAR models must be independently validated and governed, with full transparency and documentation	• Delays in model validation • Insufficient validation coverage • Lack of challenger models • Adverse regulatory findings on model risk
Limited regulatory engagement	Banks delay proactive engagement with Fed supervisors until late stages of readiness	Early engagement helps set expectations, reduce surprises and demonstrate maturity	• Misalignment with regulatory expectations • Increased scrutiny during first submission • Higher likelihood of matters requiring attention / matters requiring immediate attention
Lack of end-to-end process integration	Processes operate in silos across risk, finance, treasury and information technology (IT), without a unified operating model	CCAR requires end-to-end integration across data → models → capital → reporting → governance	• Breakdowns during parallel runs • Manual handoffs between teams • Inconsistent assumptions across functions

Source: raising-the-bar-aligning-and-enhancing-regulatory-reporting.pdf | Federal Reserve Board - Reporting Forms

Roadmap for CCAR readiness

Building CCAR capabilities is a complex, multi-year transformation effort spanning risk, finance, data, technology and governance functions. In our experience supporting banks through the Category IV transition, successful institutions adopt a phased and structured approach to build sustainable CCAR capabilities.

Phase	Key activities	Capability focus
Foundation and gap assessment	• Assess CCAR readiness vs Fed expectations • Establish a CCAR project management office with cross-functional ownership (risk, finance and tech) • Analyze FR Y-14 data gaps (availability, lineage and reconciliation) • Review existing model landscape for CCAR suitability • Define target operating model (process, systems and governance) • Develop regulatory engagement strategies • Identify priority gaps and quick wins	Program governance, regulatory alignment and current-state diagnostics
Data and infrastructure build	• Design and implement a stress data mart integrating risk and finance data • Build FR Y-14 ETL pipelines across source systems • Establish data governance, ownership and control framework • Remediate historical data (over five years' loan-level data) • Implement data lineage and metadata management • Automate data quality checks and reconciliations • Enable scalable infrastructure for stress simulations	Data architecture, data governance and regulatory reporting infrastructure
Model development	• Develop credit risk models (PD, LGD, EAD) across portfolios • Build PPNR models (income and expense forecasting) • Develop balance sheet and RWA forecasting models • Define model segmentation and portfolio coverage • Implement macro-to-model scenario translation frameworks • Establish an SR 11-7 compliant model risk framework • Ensure model transparency and regulatory defensibility	Quantitative modeling, MRM and scenario translation
Capital planning integration	• Integrate stress testing into enterprise capital planning framework • Aligning with internal capital adequacy processes • Build scenario-based capital forecasting capability • Link stress results to capital actions (dividends, buybacks) • Perform SCB impact and sensitivity analysis • Design internal stress and reverse stress scenarios • Embed outputs into strategic planning and risk appetite • Establish Board-level governance and review processes	Capital planning, strategy integration and governance
Parallel run and validation	• Execute end-to-end CCAR dry runs (scenario → models → reporting) • Perform mock FR Y-14 submissions • Conduct independent model validation (SR 11-7) • Perform internal audit review of controls and governance • Conduct regulator-style challenge sessions • Identify and remediate data, model and process gaps • Strengthening documentation and audit trails	Validation, controls, testing and regulatory readiness

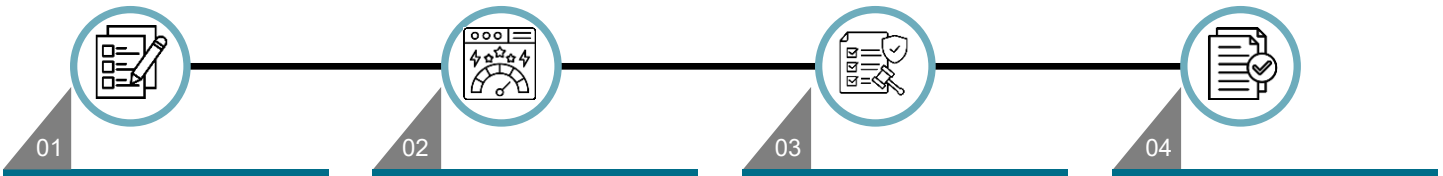
Phase	Key activities	Capability focus
Regulatory submission readiness	• Execute production-grade FR Y-14 submissions • Finalize capital plan narrative and documentation • Perform SCB simulations and sensitivity analysis • Conduct Board training and readiness sessions • Establish a regulatory interaction framework • Complete documentation, model inventory and audit evidence • Transition to a business-as-usual CCAR operating model	Regulatory submission, governance maturity and business-as-usual transition

Source: SR 11-7 attachment: Supervisory Guidance on Model Risk Management | Federal Reserve Guidance on Supervisory Assessment of Capital Planning and Positions for Large and Noncomplex Firms | Federal Reserve Board - Comprehensive Capital Analysis and Review | Revamping CCAR and Stress Testing for Better Capital Management

Implementation framework

Given the scale and complexity of CCAR implementation, many banks partner with consulting firms to accelerate execution, reduce regulatory risk and bring proven implementation experience across data, models and governance.

While CCAR readiness follows a structured roadmap, success ultimately depends on how effectively the following phases are executed.



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CCAR readiness assessment

The starting point for any CCAR program is a comprehensive diagnostic assessment to establish a clear view of current capabilities and gaps relative to regulatory expectations. The output is a prioritized transformation roadmap, aligned to regulatory expectations and tailored to the bank's current maturity

02

Stress testing infrastructure and model implementation

This phase ensures the bank moves from fragmented, manual processes to an industrialized stress testing capability

03

Regulatory reporting and data automation

Regulatory reporting—particularly FR Y-14 submissions—is one of the most complex aspects of CCAR readiness. Consulting support focuses on building automated, controlled and auditable reporting frameworks. These capabilities significantly reduce reliance on manual processes and improve submission accuracy and timeliness

04

Parallel run, validation and regulatory preparation

As banks approach readiness, the focus shifts to end-to-end testing, validation and regulatory preparedness, ensuring they are technically equipped and fully prepared for regulatory scrutiny and qualitative assessment

Our take

Banks should start preparing for CCAR as soon as they anticipate approaching the $100 billion asset threshold, rather than waiting for the regulatory trigger.

The capabilities required—data infrastructure, stress testing models, regulatory reporting pipelines and governance frameworks—cannot be built overnight. By starting early, institutions can meet regulatory expectations as well as develop a forward-looking capital planning capability that enhances their resilience and strategic agility.

As the regulatory environment continues to evolve, achieving CCAR readiness represents more than just a compliance milestone—it presents an opportunity to build a stronger, more resilient bank.

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