For immediate release

The Federal Reserve Board on Friday announced the formation of the Model Validation Council, which will provide the Federal Reserve with expert and independent advice on its process to rigorously assess the models used in stress tests of banking institutions. In addition, the Federal Reserve announced it will host a two-day symposium to discuss best practices in stress testing.

The Dodd-Frank Wall Street Reform and Consumer Protection Act required the Federal Reserve to conduct annual stress tests of large bank holding companies and systemically important, nonbank financial institutions supervised by the Board. The Model Validation Council will provide input on the Board's efforts to assess the effectiveness of the models used in the stress tests. The council is intended to improve the quality of the Federal Reserve's model assessment program and to strengthen the confidence in the integrity and independence of the program.

The 2012 Model Validation Council members are:

- Francis X. Diebold, economics professor in the Department of Economics at the University of Pennsylvania (chair)
- Peter Christoffersen, professor at the Rotman School of Management at the University of Toronto
- Mark Flannery, professor at the Warrington College of Business Administration at the University of Florida
- Philippe Jorion, professor at the Paul Merage School of Business at the University of California at Irvine
- Chester Spatt, professor at the Tepper School of Business at Carnegie Mellon University
- Allan Timmermann, professor at the Rady School of Management at the University of California at San Diego

Formation of the council is one part of the Federal Reserve's efforts to tap outside expertise in the stress testing process. In another step, the Federal Reserve will host a symposium on stress testing models on September 13 and 14 at the Federal Reserve Bank of Boston. Discussions will focus on the design and implementation of stress testing models, and cover topics including the relative merits of different modeling frameworks, best industry practices, and key challenges. Participants will include experts from academia, industry, and the Federal Reserve.
Also on Friday, the Federal Reserve released Frequently Asked Questions (FAQs) and responses regarding models used in the stress tests in the recently completed Comprehensive Capital Analysis and Review based on industry outreach calls held last month. The FAQs cover a wide range of topics including methodologies to project losses for mortgages and other consumer portfolios, mortgage repurchase risk, and wholesale portfolios.

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