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Fed Governor Warns Easing Bank Tests May Raise Risks.

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A U.S. Federal Reserve governor has warned that easing the country's bank stress tests could raise the risk of financial instability and future crises.

Governor Lisa Cook, a member of the Federal Reserve's Board of Governors, expressed concern over the shift toward making annual stress tests for banks less demanding. These tests are simulations used by regulators to assess whether major banks can withstand severe economic downturns or financial shocks. Introduced after the 2008 financial crisis, stress tests have become a key tool for ensuring the resilience of the banking sector.

Speaking at an industry event, Governor Cook said the push to simplify the tests by reducing the number of hypothetical economic shocks or making assumptions more favorable to banks might cause regulators to overlook key vulnerabilities. While the goal may be to improve efficiency and reduce burdens on financial institutions, she warned that doing so could come at a steep cost.

Cook emphasized that the U.S. banking system is still adjusting to recent challenges, including inflation, rising interest rates, and a string of regional bank failures. In such a climate, weakening regulatory safeguards could leave the system more exposed. “Stress testing must remain a robust tool,” she said, underscoring its importance in maintaining both bank stability and public confidence in the broader financial system.

The Federal Reserve has recently updated its stress test framework with a more tailored approach that adjusts requirements based on the size and complexity of each institution. However, Cook cautioned that giving in too much to banks’ preferences or underestimating potential economic shocks could have lasting consequences. “Just because a storm isn’t in the forecast doesn’t mean we should pack away our umbrella,” she added, urging regulators to stay vigilant even during periods of economic calm.

Her comments come at a time when some lawmakers and banking executives are calling for reduced oversight. They argue that current rules are too strict and may hinder growth. Cook, however, called for a balanced approach that allows innovation and flexibility without compromising safety and soundness.

Market analysts say her remarks could shape upcoming debates within the Federal Reserve and Congress as they consider the future of financial regulation. In the wake of recent bank failures and continued economic uncertainty, many agree that caution is warranted.

As the Fed considers its next steps, Governor Cook’s message is clear. Stress tests and other regulatory tools were designed to prevent the kind of systemic breakdowns witnessed in 2008. Easing them now, she argues, could reverse hard-won progress in financial stability.