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VIA ELECTRONIC SUBMISSION EMAIL

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Re: Docket ID OCC–2023–0008; Docket No. R–1813, RIN 7100–AG64; RIN 3064–AF29: Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and Banking Organizations with Significant Trading Activity, and Docket No. R–1814 and RIN 7100–AG65: Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)

Ladies and Gentlemen:

JPMorgan Chase & Co. (JPMC) appreciates the opportunity to submit comments to the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC, and collectively with the FRB and the FDIC, the Agencies) regarding modifications proposed by the Agencies to the capital requirements applicable to large banks[1] (the B3 Proposal). In addition, JPMC is also submitting comments on the FRB's proposed revisions to risk-based capital surcharges for Global Systemically Important Bank (GSIB) Holding Companies[2] (the GSIB Proposal and collectively with B3 Proposal, the Proposals). Our comments are additive to JPMC's support for the views represented in the responses submitted by a number of trade associations on both Proposals.[3]

As policymakers have stated and continue to state, large banks are extremely well capitalized and remain a source of strength and stability through economic cycles.[4] Despite this widespread acknowledgment, the Agencies published these two Proposals that would materially increase capital requirements for those same large banks, with very little publicly disclosed quantitative analysis justifying the need to do so. Neither Proposal includes adequate substantive data or a meaningful impact assessment that (i) supports the proposition that large banks require more capital, or (ii) assesses the effect of these changes to U.S. households, businesses or the economy as a whole. This lack of empirical evidence, combined with the continued strength of large banks since the

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[1] Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. at 64028 (Sept. 18, 2023), *available* here. [hereinafter, the "B3 Proposal"].
[2] Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 88 Fed. Reg. at 60385 (Sept. 18, 2023), *available* here. [hereinafter, the "GSIB Proposal"].
[3] Bank Policy Institute (BPI) and the American Bankers Association's (ABA) B3 Proposal response, the Financial Services Forum's (FSF) responses to both the B3 Proposal and the GSIB Proposal, the International Swaps and Derivatives Association (ISDA) and the Securities Industry and Financial Markets Association's (SIFMA) B3 Proposal response, the Structured Finance Association (SFA) B3 Proposal response, and the Futures Industry Association's (FIA) responses to both the B3 Proposal and the GSIB Proposal.
[4] Vice Chair for Supervision Michael S. Barr before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C., (November 14, 2023).

implementation of prudential requirements following the Global Financial Crisis (GFC) indicates that another increase to required capital—especially of this magnitude—is unwarranted.

JPMC has taken a holistic approach in responding to both the B3 and GSIB Proposals, because they—along with many other components of the capital and broader prudential framework—are inextricably linked. It is impossible to fully respond to one Proposal without examining the other, since the aggregate capital increase arises not only from the structure of the capital stacks and calibration of risk weights in the B3 Proposal, but also from how the B3 Proposal interacts with the Stress Capital Buffer (SCB), the GSIB surcharge, the Countercyclical Capital Buffer (CCyB, if activated above 0%), Total Loss Absorbing Capacity (TLAC), and Long Term Debt (LTD) requirements.

The quantum of capital increase from the Proposals, as well as other impacted requirements, will be more influential on banks' decision-making than any revisions of this nature to date. Far more importantly, the negative consequences of these increases—such as rising costs and/or the reduced availability of credit—are hurdles that are highly likely to have long-lasting effects on consumers and businesses alike. For example, the required capital for undrawn portions of retail lines of credit will increase materially as a result of the B3 Proposal. While this change would appear to only impact credit card loans from banks, the negative effects of fewer American's being able to secure credit card loans will be multiplicative. Specifically, by delaying an American's ability to build a credit history, which credit card loans provide, eventual access to other forms of essential retail credit such as mortgages and car loans may be constrained. As this is only one of many examples of the punitive economic impact these Proposals are likely to have on nearly all aspects of the U.S. economy, it is imperative that the Agencies conduct and publicly disclose a holistic (as defined in Section 1) and accurate impact analysis.

As discussed below, a combination of structural revisions and adjustments to Risk Weighted Assets (RWA) should be made prior to finalizing the Proposals. JPMC's proposed structural revisions include:

- Adjusting the GSIB surcharge for economic growth;
- Reducing the calibration of operational risk RWA;
- Right-sizing the amount of aggregate required capital for operational risk and market risk across all requirements; and
- Recalibrating the GSIB surcharge to ensure there is no increase in the required dollars of GSIB buffer as a result of the implementation of the final B3 Proposal, as systemic risk is unchanged.

RWA-specific revisions can be achieved in two ways. The first is by modifying risk weights for specific exposures, such as mortgages and certain low risk equity investments in renewable energy. The second type of RWA adjustment can be achieved by aligning the B3 Proposal with sensible changes made by other jurisdictions as further discussed in Section 3.

JPMC's comments are organized as follows:

- Section 1: Impact assessments and the FRB's holistic review
- Section 2: Comparing the B3 Proposal with the current U.S. regulatory capital framework
- Section 3: International inconsistency of capital requirements
- Section 4: Calibration of operational risk RWA
- Section 5: Interplay between RWA and other capital requirements

- Section 6: Calibration of the GSIB surcharge, and the GSIB Proposal
- Section 7: Capital markets activities
- Section 8: Wholesale exposures
- Section 9: Retail exposures
- Section 10: Securitization exposures
- Section 11: Banking book equity exposures.

Section 1: Impact assessments and the FRB's holistic review

The impact analyses in both Proposals are not truly holistic, do not account for potential effects on consumers and businesses, and are inaccurate in important instances.

In December 2022, the FRB's Vice Chair for Supervision (VCS), Michael Barr, previewed his intention to conduct a holistic review of capital standards, noting that he would be "not looking only at each of the individual parts of capital standards, but also at how those parts may interact with each other—as well as other regulatory requirements—and what their cumulative effect is on safety and soundness and risks to the financial system."[5]

In a July 2023 speech[6] VCS Barr indicated this review was complete, noting that "in sum, I believe that the existing approach to capital requirements is sound. As a result, my proposals build on that foundation." Beyond this speech, neither VCS Barr nor the FRB have provided any details on how the review was conducted or quantitative analysis on its findings. As a result, public respondents to both Proposals have no ability to contextualize what overarching level of capital the Agencies currently deem "sound." Similarly, there is no benchmark for what the Agencies consider to be an appropriate amount of aggregate capital for any given exposure or activity, or what magnitude of future increase may or may not be warranted.

JPMC believes a "holistic review" should, at minimum, account for the following two components:

1. A complete and accurate quantification of the increase to banks' capital requirements that will result from (i) the Proposals, and (ii) other requirements affected by the Proposals—for example, the increase in dollars of capital required under a firm's GSIB surcharge that occurs solely as a result of the B3 Proposal (*see Section 5*). This analysis should also review the calibration and trajectory of existing requirements, and, finally, must justify why capital increases of this magnitude are warranted; and

2. A comprehensive assessment of how capital increases of this scale will affect households and businesses—and whether the associated economic costs outweigh any potential benefits.

As a grounding principle, the primary goal of capital requirements is to assign an accurate amount of capital to an activity that reflects the risk of that activity. The Proposals would materially increase capital required for nearly all activities, without adequate analysis to support why today's levels are insufficient. In terms of the effects on the end users of banking products, both Proposals contain very limited analysis weighing the costs that such significantly higher capital requirements would pose for households, businesses and the economy as a whole. With respect to the B3 Proposal specifically, the Agencies provide only a high level impact estimate, noting that the B3 Proposal—on a standalone basis—"will

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[5] Michael S. Barr, "Why Bank Capital Matters," (Dec. 1, 2022), *available* here
[6] Michael S. Barr, "Holistic Capital Review," (July 10, 2023), *available* here.

increase the nation's largest banks' capital requirements by 19%.[7] The B3 Proposal's brief discussion of impact gives little-to-no consideration to how the cost and availability of credit and other services provided by banks will be affected, nor to how those cost movements would impact the real economy.

It is also noteworthy that, assuming the Proposals are implemented without change, JPMC's own analysis points to a much larger Common Equity Tier 1 (CET1) capital increase of about 25% or $50 billion[8] (equating to a 30% or $500 billion rise in RWAs). In addition, by the time both Proposals are implemented in 2025, JPMC's capital requirements are projected to have risen by approximately 45% since 2017 when accounting for enacted, proposed, or expected changes across the capital framework.[9]

An aggregate increase of this magnitude suggests that we are likely to observe profoundly negative consequences in many parts of the U.S. economy. For example, implications for the mortgage market will be driven not only by elevated credit risk weights, but also by operational risk and securitization components of the B3 Proposal. Importantly, these RWA increases are additive to capital requirements resulting from the SCB, the GSIB surcharge, the CCyB (if activated above 0%), and LTD requirements, all of which are impacted by RWA changes. Similarly, the capital markets activities that serve a foundational role for the U.S. economy will incur higher costs from multiple aspects of the B3 Proposal, including revisions to market risk RWA, Credit Valuation Adjustment (CVA) RWA, counterparty credit risk RWA, and operational risk RWA, notwithstanding the fact that the SCB and the GSIB surcharge already require an over-calibrated amount of capital to be held for the relevant risks.

A substantial rise in banks' capital costs for these and virtually all other activities will result in banks either (i) reducing the volume of certain products and services provided, or (ii) passing those higher costs on to end users where possible given market considerations. Both of these outcomes are likely to exacerbate the ongoing shift of banking activities to non-bank providers, which is concerning from a financial stability perspective for the following reasons:

- The regulatory framework applicable to large banks is designed to—among other goals—promote the continuity of credit creation and other financial intermediation for end users through the economic cycle. For example, stress tests such as the Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Testing (DFAST) exercises, as well as requirements such as the Liquidity Coverage Ratio and TLAC, help ensure banks remain financially prepared (i.e., buffered) to continue providing credit and liquidity in times of stress. While these features may not fully guarantee credit availability in challenging economic environments, having the aggregate banking system buffered for such events clearly benefits households and businesses. In contrast, credit provided by non-bank financial institutions tends to be more procyclical, as non-banks are more acutely responsive to market conditions and less incentivized relative to banks to continue lending in stress due to their different business models and the lack of regulatory expectations for these providers to be ready to serve clients and customers even in times of stress. Moreover, unlike non-bank financial institutions, the parent company of a bank is generally required to serve as a "source of strength"[10] for its bank subsidiaries, including by committing resources to support those subsidiaries.

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[7] B3 Proposal, 88 Fed. Reg. at 64169, Footnote 464. ("Largest banks" includes Category I (GSIBs) and II (those with greater than or equal to $700 billion in total assets, or $75 billion in cross jurisdiction activity) banks).

[8] Estimated impacts based on JPMC's best understanding of the B3 Proposal, as applied to our balance sheet as of 2Q 2023 with SCB currently in effect, and 1Q 2024 GSIB surcharge. Estimate for operational risk RWA, including internal loss multiplier used, is as of the implementation date. Estimate incorporates no remediation. Estimated RWA impact of >$500B has been rounded down to $500B.

[9] 45% estimated aggregate increase reflects constant risk and includes the impact of standardized approach for counterparty credit risk finalized in 2019, the B3 Proposal, the GSIB surcharge Proposal, upward trajectory of the GSIB surcharge attributable to economic growth, and SCB volatility.

[10] 12 U.S.C. 1831o-1, requires a Bank Holding Company serve as a "source of strength" for its depository institution subsidiaries.

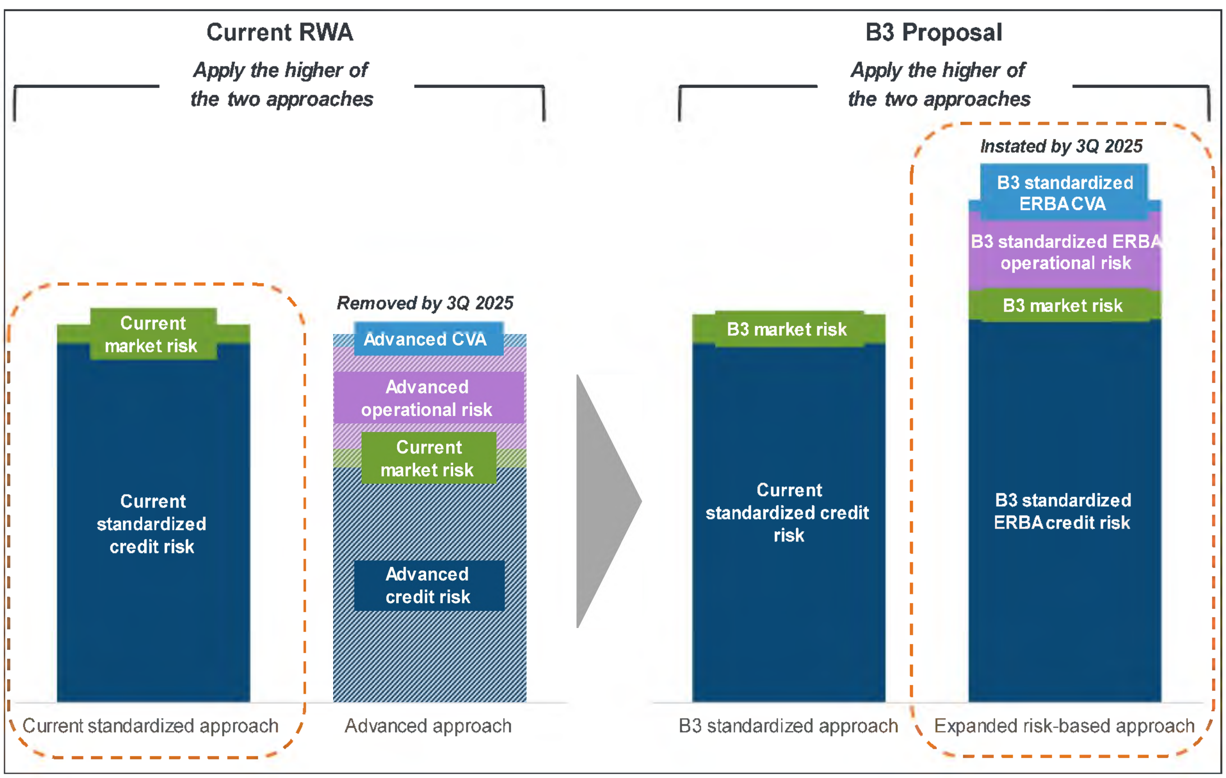
- Finally, it has been suggested that activity moving away from the regulated banking sector could reduce systemic risk. The argument assumes that—all else equal—less activity in the banking sector would reduce the systemic footprint of any given bank. This would hypothetically lower broader system-wide contagion should the given bank fail, thereby reducing the need for government assistance in times of stress. Even if this premise were initially accurate, it is improbable that all of this activity would remain outside of the regulated banking system through stress, as non-bank providers are likely to seek financing from banks, re-exposing the system to these risks. Additionally, many non-bank providers have limited access to contingent liquidity sources such as the discount window, increasing the probability that some of these providers may require incremental government assistance in a severe stress event.

Section 2: Comparing the B3 Proposal with the current U.S. regulatory capital framework

The B3 Proposal fundamentally alters the construct of the existing U.S. regulatory capital framework.

The materiality of many of the Agencies' decisions in their proposed implementation of international Basel Committee on Banking Supervision's (BCBS) standards can be better understood when compared against some of the concepts that underpin the current U.S. regulatory capital framework.

Today, Category I and II banks are subject to a dual stack framework for assessing binding risk-based capital requirements. These consist of a stack calculated using the current standardized approach for RWAs, and a stack measured with the internal models-based advanced approach for RWAs. The B3 Proposal would retain the current standardized capital stack, with a revised calibration of market risk RWA (B3 standardized approach). As shown below, the current advanced approach would be eliminated, and replaced with another standardized approach—the Expanded Risk-Based Approach (ERBA).[11]



[11] For ease of illustration, the chart refers to the higher of the two RWA stacks and sets aside the incremental required capital that arises as a result of the SCB only being applicable to the current standardized capital stack.

As a grounding principle, banks' decision-making is driven predominately by which risk-based capital requirements are most constraining or "binding." Under the existing framework, the current standardized approach stack is JPMC's CET1 binding constraint.

The B3 Proposal would lead to "the most commonly binding capital requirement shift[ing] from the current standardized approach to the expanded risk-based approach."[12] In other words, while JPMC calculates minimum CET1 requirements using the advanced approach, over the last 6 years (24 quarterly observations), it has never been JPMC's binding CET1 constraint. In fact, over the same time horizon, the advanced approach has also never been the binding CET1 constraint for Wells Fargo or Northern Trust, and absent Bank of New York Melon, has not been the binding CET1 constraint for any Category I or II firm since the first quarter of 2021.[13]

This lack of "bindingness" is why many refer to operational and CVA RWA-based capital charges as "new." As shown in the visual on page 5, these risks are not capitalized in the current standardized approach RWA calculation,[14] but will be through the B3 Proposal's ERBA capital stack. The addition of these explicit capital charges for operational and CVA risks, together with the Agencies' proposed elimination of modeling for credit risk (*see Section 3*), are the primary B3 Proposal changes driving the significant increases in aggregate RWA. These combined revisions result in ERBA becoming the overwhelmingly binding risk-based constraint for all Category I and II firms and therefore, will now be one of the primary determinants in JPMC's business decisions.

Section 3: International inconsistency of capital requirements

The B3 Proposal leads to capital increases that are unnecessary to achieve consistency with Basel standards and far in excess of other major jurisdictions.

The B3 Proposal is calibrated in excess of the BCBS' global standards, and even higher compared to other jurisdictions' adoption of those standards. It is possible to implement the 2017 BCBS standards in a manner that does not result in a 25% rise in required capital, while still achieving broad consistency with the BCBS standards. However, at almost every turn, the Agencies have chosen to propose these requirements conservatively—without presenting sufficient analysis or justification—for a U.S. banking system that is already subject to some of the most stringent regulatory requirements in the world.

One of the most punitive decisions made by the Agencies in the B3 Proposal was the elimination of banks' ability to internally model credit risk RWA. The final BCBS standards prescribed that banks could continue to model most credit risk exposures, but that modeled results could not produce a total RWA lower than 72.5% of those calculated using the new standardized approach, or ERBA in the B3 Proposal. With U.S. banks being unable to use credit risk modeling to mitigate a portion of the significantly higher RWA that results from ERBA, these increases effectively become permanent.

In addition to deciding to eliminate credit risk RWA modeling, the Agencies also opted to propose several aspects of the BCBS standards in a more conservative manner without sufficient analysis, including (i) risk weights for certain retail exposures, such as mortgages, auto loans, and consumer loans, (ii) risk weights for equity exposures; and, (iii) flooring the operational risk RWA Internal Loss Multiplier (ILM) at 1.

While JPMC believes the Agencies' 19% capital increase is understated, it is actually still multiples higher than the projected impacts of these requirements in other major jurisdictions including the United Kingdom (UK) and the European Union (EU). The Prudential Regulatory Authority (PRA) estimates that

[12] B3 Proposal, 88 Fed. Reg. at 64168.
[13] Based on Category I and II banks' disclosed current standardized approach and advanced approach RWAs and CET1 capital from 4Q 2017 – 3Q 2023.
[14] As further discussed in Sections 4 and 5, operational and CVA risks are capitalized in the current standardized approach capital stack through the SCB which applies to this stack.

the overall package of policies would result in a 3.2%[15] increase in Tier 1 capital requirements for major UK firms, with the European Banking Authority (EBA) projecting a 9.9%[16] rise in Tier 1 requirements for EU firms. For comparison purposes, JPMC estimates the B3 Proposal will increase the firm's Tier 1 capital requirements by about 26%, relative to our estimated CET1 increase of 25%.

The overarching question when calibrating capital requirements is: "What is the appropriate amount of equity to assign to a given activity that accurately reflects the risk of that activity?" It is concerning that essentially all other major jurisdictions have independently arrived at an answer that is substantially lower than the U.S. Agencies—both at an exposure-specific level and in aggregate. The Agencies must publicly analyze the notably higher outcome produced by the U.S. B3 Proposal, and in doing so, must explain why international policymakers with deep technical expertise and supervisory experience have come to materially different conclusions on a number of issues such as those noted below.

- The Agencies' opposition to credit risk modeling is well-documented; however, their decision to eliminate it raises capital requirements multiples more compared to jurisdictions such as the UK and the EU where it was largely retained. In addition to the elimination of credit risk modeling, the B3 Proposal also makes other punitive changes to the capital stacks (*see Section 2*) that will exacerbate this disparate impact across jurisdictions. ERBA credit risk weights should be reassessed, giving appropriate consideration to the existing advanced approach risk weights being replaced, and acknowledging the aggregate impact of adding standalone operational risk and CVA capital charges to large banks' now binding capital stack;

- The requirement that an investment grade company have publicly traded securities to qualify for a reduced risk was eliminated in the UK and EU; and,

- Haircut floors for SFTs are subject to an evaluation period in the UK and EU to determine if they should ultimately be proposed.

While the capital requirements of the U.S. and other jurisdictions are not completely identical, it is noteworthy that, as part of its B3 Proposal, the PRA "set out its principle not to double count capital requirements for the same risks,"[15] recognizing that changes to the overarching capital framework "will need to be adjusted at the same time as the Basel 3.1 standards are implemented to address double counts and changes in RWAs."[15] It is essential that the Agencies adopt a similar approach to that of the PRA, so as to reduce the magnitude of unwarranted capital increases resulting from (i) the interplay between the B3 Proposal, the SCB and the GSIB surcharge (*see Section 5*), and (ii) the calibration of the GSIB surcharge more broadly (*see Section 6*).

Section 4: Calibration of operational risk RWA

The calibration of operational risk RWA is flawed, and the impact analysis contains a meaningful error.

The combination of the Agencies' proposed elimination of modeling for credit risk, together with the addition of a standalone operational risk RWA[17] capital charge is the primary driver of the significant rise in both aggregate RWA and capital requirements. The Agencies estimate that the addition of a standardized operational risk RWA capital charge accounts for an overwhelming majority[18] of the increase in banks' capital requirements under the B3 Proposal. Furthermore, the addition of this

[15] PRA, "PS17/23 – Implementation of the Basel 3.1 standards near-final part 1 (Dec. 12, 2023), *available* here.
[16] EBA, "Basel III Monitoring Exercise – Results Based on Data as of 31 December 2022" (Annex – Analysis of EU Specific Adjustments)" (Sept. 26, 2023), *available* here.
[17] As noted throughout, the B3 Proposal also adds a standalone CVA RWA charge to the ERBA capital stack.
[18] Agencies estimated the addition of the operational risk charge accounted for ~90% of Category I-IV banks' capital increase under the B3 Proposal (~78% increase for Category I-II). As detailed in the FSF comment letter, the impact among GSIBs equates to ~64% which is driven by the B3 Proposal's underestimation of credit risk RWA on a relative basis.

standalone requirement also meaningfully raises the dollars of capital required under a firm's GSIB surcharge (RWA x surcharge % = dollars of GSIB capital required; *see Section 5*).

Despite this degree of materiality, the B3 Proposal does not contain a robust quantitative or qualitative justification for the inclusion of a standalone operational risk RWA calculation in the ERBA capital stack, nor does it make any assessment of whether the ERBA risk weights for credit exposures are accurately calibrated given its inclusion. When the Agencies originally calibrated the risk weights in the current standardized approach, they deemed an explicit operational risk charge unnecessary. Instead the Agencies included a buffer for "risks not easily quantified" such as operational risk in the current standardized credit risk weights.[19] This resulted in a framework where the Agencies only required a standalone operational risk capital charge be applied where credit modeling was permitted, namely the advanced approach. As we transition from the current framework to the B3 Proposal's ERBA construct, it would seem reasonable to expect a corresponding reduction of credit risk weights under ERBA to account for the addition of an explicit operational risk RWA charge. The Agencies, however, have not provided guidance or impact analysis to this effect. While the B3 Proposal does reduce risk weights for certain components of credit risk RWAs, a significant portion are either unchanged, or have been increased. Without the Agencies either (i) providing an estimate as to how current standardized credit risk weights have been recalibrated in ERBA to account for the introduction of an explicit operational risk charge, or (ii) publicly communicating that no adjustment was made and providing an appropriate rationale, our ability to comment on this aspect of the B3 Proposal is limited.

The B3 Proposal also fails to accurately assess the impact of operational risk RWA on lending and trading activities. Specifically, the Agencies omitted $1 trillion of RWA associated with the services component of the operational risk calculation. While many products and services incur capital from the Services Component (SC), two of the most notable are lending and trading activities, meaning that the B3 Proposal's stated impact to these activities is both incorrect and materially understated. [20]

Additionally, the calculation of operational risk RWA itself is flawed in three significant ways, with the B3 Proposal also failing to provide adequate substantive analysis supporting the calibration of the calculation, or analyzing the effect of the resulting capital increase on U.S. households and businesses.

a. The calibration of the Business Indicator Component (BIC) is heavily dependent on an institution's size. This incorrectly results in large banks holding comparatively more operational risk RWA and, therefore, more capital for the same activities occurring at a smaller firm with less revenue and expense. Specifically, for every dollar of revenue included in the BIC, a large bank that earns more than $30 billion in revenue is assigned approximately 1.5 times more operational risk RWA compared to a bank with less than $1 billion in revenue. This is driven by the BIC multiplier which is significantly larger for bigger banks (18%), versus smaller firms (12%). This BIC multiplier effectively acts as a *large-bank-surcharge*, which is further compounded for large banks that are also GSIBs. This compounding effect arises in the computation of required capital, where the *large-bank-surcharge* from the BIC multiplier in the operational risk RWA calculation is then multiplied by another *large-bank-surcharge* due to the GSIB surcharge itself. We estimate the combined effect of these two size-based surcharges results in a GSIB needing to hold approximately 2.2 times the amount of capital versus a smaller, non-GSIB bank[21] for each dollar of BIC revenue. Therefore, the interaction between the BIC size-based multiplier and the GSIB surcharge effectively results in a *large-bank-surcharge-squared*.

[19] Risk-Based Capital Guidelines: Implementation of the New Basel Capital Accord, 68 Fed. Reg. at 45,902 (Aug. 4, 2003), *available* here.
[20] Francisco Covas, The Trillion Dollar Omission in Vice Chair Barr's Cost Analysis, Bank Policy Institute (Oct. 12, 2023), *available* here.
[21] Example assumes for simplicity ILM = 1 for all banks. SCB for the hypothetical comparison non-GSIB bank is assumed to be 2.5%. The average GSIB impact assumes the blended GSIB surcharge for the 8 US GSIBS as of 1Q 2024 and the blended SCB (adjusted for the estimated Basel III Endgame impact), as well as the marginal BI multiplier, weighted by each US GSIB's estimated BIC.

b. As recognized by the BCBS,[22] the SC of the BIC has an outsized impact on banks' fee-based businesses, but the B3 Proposal only provides minimal data with respect to the economic impacts of adding this capital charge, despite the likelihood of it raising the cost of these services for consumers and businesses that rely on them. The types of activities affected include custody, asset and wealth management, investment advisory, underwriting, and payments services, all of which are important to U.S. businesses, households, and the broader economy. In addition to being crucial activities to the U.S. and global economies, they are also a means of revenue diversification for banks."[23] Furthermore, wealth and investment management fee-based revenues have been shown to be durable in times of stress, providing stable revenue streams through economic cycles for banks that engage in these activities.

c. U.S. Agencies chose to floor a bank's Internal Loss Multiplier (ILM) at 1, which is more punitive relative to BCBS standards, but without sufficient justification. While JPMC supports removing the ILM floor, setting the ILM equal to one will not address the material over-calibration of operational risk RWA. This is because many large U.S. banks' ILMs are anticipated to be at or near 1 by the time the B3 Proposal becomes effective, assuming these large banks do not have a significant increase in operational risk losses from their current respective levels. Specifically, larger GFC-driven losses will no longer be included in many firms' 10-year loss history, and any reasonable growth in revenue will further lower the ILM. Therefore, all else equal, setting ILM equal to 1 would not result in a significant reduction of capital required for operational risk RWA on the adoption date. Additionally, setting ILM equal to 1 would disproportionately and incongruously benefit banks with higher historical operational losses.

Finally, the B3 Proposal does not quantify the increase of aggregate capital required for operational risk between the SCB, the B3 Proposal, and the GSIB surcharge. As discussed in more detail in Section 5, JPMC's total operational risk capital requirement arising from the binding ERBA capital stack will increase by multiples, without any analysis supporting the need for it. Addressing this over-calibration of capital required for operational risks—both with respect to operational risk RWA and across the capital framework—would meaningfully lower the negative impact of the B3 Proposal on banks' capital requirements. More significantly, negative effects on the wide range of customers that large banks serve would also be reduced.

Importantly, no single recommendation of those noted below would be adequate to reduce the excessive calibration of operational risk capital requirements for large banks as a result of the B3 Proposal. As such, Agencies should adopt an appropriate combination of the below recommendations, in conjunction with adjusting the calibration of operational risk losses included in the SCB, as discussed in Section 5.

Operational risk RWA recommendations (*see BPI / ABA comment letter*):
1. Adjust the coefficients used to calculate the BIC from the current size-based buckets of 12%, 15%, and 18% to a fixed 12% to reduce the excessive overall calibration of operational risk RWA and the magnified impact of marginal increases in revenue and expenses for larger firms;

[22] Basel Committee on Banking Supervision, Consultative Document, Operational risk – Revisions to the simpler approaches, (October 2014), *available* here. ("A small number of banks that are highly specialised in fee businesses have been identified as facing a disproportionately high capital impact under the BI. The problem stems from the structure of the BI, which was designed to capture the operational risk profile of a universal bank and does not lend itself to accurate application in the case of banks engaged predominantly in fee-based activities. The Committee will respond to the issue if it is evidenced by the results of the new data collection exercise").
[23] Board of Governors of the Federal Reserve, "Statement by Gov. Michelle W. Bowman," (July 27, 2023), available here. ("FRB Governor Bowman explained that "[d]iversification in revenue streams can enhance the stability and resilience of a bank, and excessive capital charges for these revenue-generating activities could create incentives for banks to roll back the progress they have made to diversify revenues").

2. Allow offsetting of fee income with fee expense and apply specifically calibrated risk weights[24] to distinguish between the different levels of operational risk across lines of business; and,
3. Eliminate the ILM floor, and adopt a floating ILM. Also, significantly decrease the loss multiplier for past operational risk losses from 15 times average losses over the preceding 10 years.

Section 5: Interplay between RWA and other capital requirements

The interaction of RWA with other components of the ERBA capital stack is not adequately considered in either Proposal.

Rising levels of RWA associated with the B3 Proposal impact other capital requirements, resulting in additional increases throughout the capital framework that are not evaluated in either Proposal. For example, higher RWA will directly increase the dollars of capital required for, among other things, the GSIB surcharge, despite no change in JPMC's systemic risk. Additionally, many of the activities most punitively impacted by the B3 Proposal are already being substantially capitalized through the SCB. The most pronounced areas of over-calibration between requirements include operational risk, market risk, and the B3 Proposal's interaction with the GSIB surcharge.

a. Operational risk RWA and the SCB (*see BPI / ABA comment letter*)
   JPMC estimates that we hold approximately $15 billion[25] of required operational risk capital embedded in our SCB. With the addition of the operatinal risk RWA capital charge, JPMC will be required to hold another $30 billion, resulting in an aggregate amount of $45 billion in required capital across RWA and the SCB for operational risk.[26] As discussed above, it is essential that the Agencies disclose analysis that allows the public to understand why an increase of this magnitude is warranted, and that the associated economic costs and benefits have been appropriately considered. There is also no meaningful assessment of the economic impacts that are likely to occur following the introduction of a standardized operational risk RWA capital charge, particularly when combined with the impact of eliminating credit risk RWA modeling (*see Section 3*). Absent publicly disclosed data to support why JPMC's required capital for operational risk should increase by multiples within its binding capital stack, the treatment of these risks through RWA, SCB, and ultimately the GSIB surcharge must be re-examined.

b. Market risk RWA, CVA RWA, and the SCB (*see ISDA / SIFMA* and *BPI / ABA comment letters)* The proposed market risk RWA framework consists of two approaches: an internal models approach which "replaces Value at Risk (VaR) and stressed VaR with a single Expected Shortfall (ES) metric that is calibrated to a period of significant market stress,"[27] and the new standardized approach fmarket risk, which "conceptually is similar to a stress test…where [standardized] risk weights have been calibrated to stressed market conditions."[27] With this revised calibration of market risk RWA, it is essential that the Agencies acknowledge the degree to which these risks are already capitalized through the Global Market Shock (GMS) component of stress testing and the SCB—and justify why a significant rise in the overall capital required for these risks is warranted.

[24] BPI ABA B3 Proposal response, Section 5B, Figure 1, pg. 94, (Jan. 16, 2024), *available* here.
[25] Estimate for operational risk losses calculated as follows: Federal Reserve nine-quarter operational risk losses of $185B for all CCAR banks allocated pro-rata based on total assets and adjusted for a 50% haircut to reflect timing of peak stress occurring prior to the end of nine quarters. Applying this to JPM: $185B x 17% x 50% = ~$15B.
[26] Estimated B3E impacts based on JPMC's best understanding of the B3 Proposal applied to our balance sheet as of 2Q 2023, with SCB currently in effect, and 1Q 2024 GSIB surcharge. Estimate of operational risk RWA, including ILM used, is as of implementation date. Estimate does not incorporate remediation, and numbers are rounded for ease of illustration.
[27] Basel Committee on Banking Supervision, Explanatory note on the minimum capital requirements for market risk, (Jan. 2019) *available* here.

Additionally, the treatment of CVA risk across RWA and stress testing would exacerbate the increase in required capital for trading activities. Similar to operational risk RWA, CVA RWA—which was historically only captured through the advanced approach to which the SCB does not apply—will also now be added to the ERBA capital stack, inclusive of the new application of the SCB to this capital stack, which already capitalizes CVA losses.

The aggregate RWA increase for capital markets activities is driven not only by market risk and CVA RWA, but also by operational risk RWA which is particularly punitive for these activities. By the Agencies' own estimates, RWA for trading activities will rise 157%. While that increase is already quite sizable, it is actually understated due to the previously discussed omission of $1 trillion of operational risk RWA in the Agencies' assessment of operational risk RWA's impact on lending and trading activities. The economic consequences of all revisions affecting trading activities must be assessed correctly and holistically, since any material shift in the cost or availability of credit and risk hedging will flow through to all businesses and households that rely—directly or indirectly—on large banks' ability to provide access to capital markets (*see Section 7*).

c. ERBA RWA and the GSIB surcharge (*see FSF GSIB Proposal comment letter*)

The dollars of capital required from the GSIB surcharge are directly driven by RWA (GSIB required capital = RWA x surcharge %). As proposed, JPMC will need to hold another $22.5 billion of capital under its GSIB requirement of 4.5%, solely as a result of the B3 Proposal's increase in RWA, despite no change in our systemic risk.

<u>"RWA interplay" recommendations:</u>

1. Absent accurate and complete analysis justifying why aggregate operational risk capital should increase by this magnitude, exclude operational risk losses from the SCB or reduce operational risk RWA to account for operational losses that are already included in the stress tests (*see ISDA/ SIFMA and BPI / ABA comment letters*);

2. Recalibrate operational risk RWA (*see Section 4*);

3. Absent accurate and complete analysis justifying why aggregate CVA risk capital should increase between RWA and SCB, exclude CVA risk losses from the SCB or reduce CVA RWAs to account for CVA losses that are already included in the stress tests (*see ISDA/SIFMA and BPI / ABA comment letters*); and,

4. Adjust the GSIB surcharge for the increase in required dollars of capital due to the increase in RWA from the B3 Proposal, and reassess other key aspects of the calibration of the GSIB surcharge (*see Section 6*, and *FSF GSIB Proposal comment letter*).

<u>Section 6: Calibration of the GSIB surcharge, and the GSIB Proposal</u>

The GSIB surcharge is over-calibrated and does not accurately measure systemic risk.

JPMC supports the views raised in FSF's response to the GSIB Proposal. We also agree with certain of the proposed changes in the GSIB Proposal—specifically the narrowing of surcharge bands from 50 basis points to 10 basis points, as well as the conceptual move from a spot year-end to an average-based measurement, despite the increased operational burden associated with these proposed revisions.

In its GSIB Proposal, however, the FRB does not address a self-identified[28] and widely acknowledged shortcoming of its initial calibration to update the calculation's fixed coefficients to account for the inflationary effects of economic growth. Based on current RWA requirements, the impact of economic growth has driven $59.2 billion of inflation of GSIB dollars of capital required to be held across all eight GSIBs since adoption of the surcharge in 2015.[29] In other words, U.S. GSIBs are holding more than $59 billion in GSIB capital buffers attributable solely to general economic growth—and on top of this will now be subject to an additional significant increase in dollars of GSIB capital required from the B3 Proposal. Put simply, this result is inappropriate and inconsistent with the commitment made by the FRB to review these coefficients. RWA increases from the B3 Proposal will compound this effect, with GSIB dollars of required capital significantly rising further, again without any change to systemic risk (*see Section 5*).

To provide context, the Agencies' stated 19% increase to Category I and II firms that results from the B3 Proposal equates to approximately $150 billion.[30] If the Agencies were to adjust the GSIB surcharge coefficients for economic growth as originally intended, dollars of capital required would decline by $59 billion, which would meaningfully contribute to addressing the over-calibration of the B3 Proposal.

With respect to frequency of measurement, JPMC has publicly supported the move to averaging on a conceptual basis. However, *daily* average measurement is unnecessary, as the move to narrower surcharge buckets removes incentives for banks to temporarily adjust their balance sheets at a reporting date in a way that is not reflective of ongoing systemic risk.

<u>GSIB surcharge recommendations</u> (*see FSF GSIB Proposal comment letter*):

1. Recalibrate the GSIB surcharge's fixed coefficient methodology to account for economic growth since the requirement was finalized;

2. Adjust the GSIB surcharge for the inflationary impact from the B3 Proposal; (*See section 5*);

3. Adjust the weight of the Short Term Wholesale Funding category to 20%, consistent with the stated intention of the FRB when finalizing the requirement;[31] and,
   Do not require the reporting of the average of daily values for any indicator over the reporting quarter. Instead, the majority of these indicators should use the average of month-end values, except in certain instances where a quarter-end measurement is most sensible.

<u>Section 7: Capital markets activities</u>

Capital markets activities are often times mistakenly believed to be products and services that only benefit large banks and hedge funds; however, large banks provide capital markets access to a wide range of end users throughout the U.S. economy. These include small businesses, asset managers, farmers, federal government agencies, state governments, local municipalities, regional banks, and community banks. These institutions collectively provide a vast multitude of goods and services that everyday Americans rely on. The price of those goods and services is affected by, among other inputs, the costs of essential bank-provided services, including financing and risk hedging. Therefore, the B3

[28] Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 Fed. Reg. at 49,082 (August 14, 2015), *available* here. [hereinafter, the "final U.S.GSIB rulemaking"]. ("While the final rule's method 2 score has the advantages set forth above, the Board acknowledges that over time, a bank holding company's method 2 score may be affected by economic growth that does not represent an increase in systemic risk. To ensure changes in economic growth do not unduly affect firms' systemic risk scores, the Board will periodically review the coefficients and make adjustments as appropriate").

[29] Assumes a deflation of the method 2 GSIB surcharge coefficients including: size, interconnectedness, complexity and cross jurisdictional activity by 1.53 which reflects the increase in economic growth, measured as nominal GDP from 2013 (data used by FRB to originally calibrate fixed coefficients) to 4Q 2022.

[30] Based on 3Q 2023 Category I and II banks' disclosed current standardized approach RWAs and 1Q 2024 SCB and GSIB surcharges (if applicable) in effect.

[31] Final GSIB rulemaking, 80 Fed. Reg. at 49,100.

Proposal's punitive treatment for activities such as financing, market making, and hedging will ultimately be felt most by U.S. businesses, consumers and savers.

Drivers of required capital for these activities come from all components of the capital stack. From an RWA perspective, capital increases arise not only from revisions to market risk RWA and counterparty credit risk RWAs, but also in large part due to both operational risk RWA and CVA RWA that will now be included in the binding ERBA capital stack (*see Section 2*). As previously discussed, higher RWA is also compounded through an increase to the dollars of GSIB capital required, and additive to the capital required by the SCB which is also particularly punitive for capital markets activities.

<u>Capital markets-related recommendations</u> (*see ISDA / SIFMA and BPI / ABA comment letters*):

1. Revise key aspects of the B3 Proposal applicable to counterparty credit risk:

   a. Haircut floors for SFTs should be subject to an evaluation period to determine if they should ultimately be proposed, consistent with the UK and EU;

   b. The requirement that a creditworthy, investment grade company have publicly traded securities outstanding for the risk-mitigating benefits of its securities to be recognized when posted as collateral should be eliminated; and,

   c. The ability to recognize the risk-mitigating benefits of non-investment grade collateral for term repo-style transactions should be retained.

2. Recalibrate certain components of market risk RWA in the B3 Proposal;

   a. Risk sensitivity of standardized risk weights should be increased to reduce over-calibration, including greater recognition of diversification; and,

   b. Use of internal models should be more accessible, with reduced charges for non-modelable risk factors.

3. Reduce aggregate required capital for operational risk (*see Sections 4 and 5*);

4. Reduce aggregate required capital for trading activities by removing CVA losses from the SCB (*see Section 5*);

5. Right-size the calibration of the GSIB surcharge, both for economic growth and the inflationary impact of the B3 Proposal (*see Sections 5 and 6*);

6. Eliminate the requirement that a creditworthy investment grade company have publicly traded securities to qualify for a reduced risk weight (*see Section 8a*); and,

7. Reassess the calibration of risk weights for bank exposures (*see Section 8b*).

<u>Section 8: Wholesale exposures</u>

While JPMC supports the views related to wholesale exposures detailed in the responses submitted by BPI / ABA and FSF, we highlight two of the highest priority issues here. We strongly encourage the Agencies to adopt these recommendations prior to finalization to help mitigate negative consequences for (i) certain creditworthy corporate borrowers and their customers, and (ii) smaller banks that rely on larger banks to meet their clients' needs.

a. Investment grade corporate exposures

Under the B3 Proposal, a bank would assign a reduced 65% risk weight to a corporate exposure that is both (i) an exposure to a company that is investment grade, and (ii) where that company, or a parent that controls that company, has publicly traded securities outstanding. There is no public empirical data to validate that the existence of publicly traded securities has any bearing on the creditworthiness of a company, nor have the Agencies provided any supporting analysis. In addition, this requirement would impose an effective risk weight in excess of today's 100% (after the allocation of operational risk RWA) on loans to creditworthy small and mid-sized businesses that are investment grade, but do not have publicly traded securities outstanding. Based on available statistics,[32] the overwhelming majority of U.S. companies would not satisfy the publicly traded securities requirement, and neither would highly regulated mutual funds and pension funds. This requirement would likely result in these highly creditworthy entities facing higher costs and/or reduced availability of credit.

Investment grade corporate lending recommendations (see BPI / ABA and FSF comment letters):

1. Eliminate the requirement that a creditworthy investment grade company have publicly traded securities to qualify for a reduced risk weight;
2. Reduce aggregate required capital for operational risk (*see Sections 4 and 5*); and,
3. Right-size the calibration of the GSIB surcharge, both for economic growth and the inflationary impact of the B3 Proposal (*see Sections 5 and 6*).

b. Bank exposures

In implementing the final BCBS standards for the risk weights applicable to bank exposures under the non-ratings based approach, the B3 Proposal neglected to include a reduced risk weight for very well capitalized banks,[33] and restricted the short-term bank exposure definition without any analysis to support this deviaion. Furthermore, the Agencies presented no analysis that supports the implication that the 20% risk weight applicable under the current standardized approach is inadequate, or for why it is appropriate to adopt risk weights that are higher than those permitted under the ratings-based approach in the BCBS standard. These proposed changes would increase large banks' costs for various inter-bank activities, including when lending to smaller banks (as well as other financial institutions), subsequently impeding those small banks' ability to fully support their local communities and customers.

Bank exposures recommendations (*see BPI / ABA and FSF comment letters*):

1. Apply a 20% risk weight for long-term exposures to very well capitalized banks;[33]
2. Align the definition of short-term bank exposure to the BCBS standard;
3. Reduce aggregate required capital for operational risk (*see Sections 4 and 5*); and
4. Right-size the calibration of the GSIB surcharge, both for economic growth and the inflationary impact of the B3 Proposal (*see Sections 5 and 6*).

[32] Irani, M. Vahid and Pinto, Gerard and Zhang, Donghang, IPOs on the Decline: The Role of Globalization (Oct. 10, 2022).
[33] Basel Committee on Banking Supervision, Calculation of RWA for credit risk, *available* here. (Dec. 2017). ("Under the SCRA, exposures to banks without an external credit rating may receive a risk weight of 30%, provided that the counterparty bank has a Common Equity Tier 1 ratio which meets or exceeds 14% and a Tier 1 leverage ratio which meets or exceeds 5%. The counterparty bank must also satisfy all the requirements for Grade A classification").

Section 9: Retail exposures

If one were to compare the B3 Proposal's ERBA credit risk weights for retail exposures to current standardized credit risk weights, they would appear to be lower, notwithstanding the fact that they are still 10% higher relative to BCBS standards. The current standardized credit risk weights and the ERBA credit risk weights in the B3 Proposal, however, are not a like-for-like comparison. As discussed in Section 2, the current standardized approach capital stack does not include an explicit operational risk RWA capital charge, while the ERBA stack does. This means that the effective risk weight a bank will apply to a retail credit exposure under the B3 Proposal must now include the sum of both the credit and operational RWAs for a given loan, instead of only the credit risk RWA applicable under today's framework. After adding the credit and operational RWAs for these loans together, the result is far closer to—and in important cases higher—than current requirements. Additionally, the B3 Proposal introduces a new 10% Credit Conversion Factor (CCF) applied to the unused portion of retail lines of credit.

For example, the B3 Proposal's risk weight for a transactor credit card exposure is 55%, and for a non-transactor exposure is 85%, as compared to the current 100% risk weight applicable to all credit card loans. Both of these proposed risk weights rise above 100% when the CCF under ERBA is applied. Once required operational risk RWA is included, the effective risk weight for a credit card loan could exceed 150%.[34] This result is more than double the observed average advanced approach risk weight of 73%.[35]

Since the CCF is a meaningful driver of higher required capital for credit card loans under the B3 Proposal, it is possible that as a low-cost means of mitigating some of this increase, banks opt to reduce borrowers' credit lines. While cost-mitigating for the bank, lowering a borrower's credit line will, all else equal, increase their utilization rate, putting downward pressure on that borrower's FICO score.[36] Given the impact of FICO scores in securing other forms of affordable retail credit such as a mortgage or an auto loan, this dynamic should be carefully considered by the Agencies prior to finalization of the B3 Proposal.

The Agencies provided only minimal justification for the B3 Proposal's calibration of risk weights for retail lending activities, remaining silent with respect to historical loss rates for these exposures. They note that risk weights for residential real estate and retail credit exposures were calibrated higher compared to international standards to ensure large banks would not benefit from a perceived competitive advantage relative to smaller banks not subject to the B3 Proposal.[37] Putting aside the principle that the primary objective of capital regulation should be to capitalize a given exposure commensurate with its risk—not to achieve competitive outcomes—larger banks are subject to a number of additional regulatory requirements beyond exposure-specific risk weights. Compliance with the SCB, the GSIB surcharge, LTD requirements, TLAC, and liquidity requirements all impact large banks' cost of retail lending, suggesting that no such competitive advantage exists.

Additionally, the increased cost of retail credit that is likely to result from the B3 Proposal's over-calibration of these risk weights—particularly those for credit card and auto loans—is not broken down by product type, and only broadly referenced as producing an "increase of 30 basis points in required risk-based capital ratios across large banking organizations" for lending activities in general. However, this

[34] Effective risk weights estimated based on JPMC portfolio average utilization rates and estimated operational risk impacts.
[35] According to the FFIEC 101 reports, the average risk weight for credit card loans across banks using the advanced approaches was approximately 73% for the period from 2014 to 2022, inclusive of (i) the effect of a non-zero CCF for the unused portion of credit lines, and (ii) historical loss experience during a severe economic downturn.
[36] Experian, "What Is a Credit Utilization Rate?" (Nov. 2023), *available* here.
[37] B3 Proposal, 88 Fed. Reg. at 64,028, ("In addition, the proposal attempts to mitigate potential competitive effects between U.S. banking organizations by adjusting the U.S. implementation of the Basel III reforms, specifically by raising the risk weights for residential real estate and retail credit exposures. Without the adjustment relative to Basel III risk weights in this proposal, marginal funding costs on residential real estate and retail credit exposures for many large banking organizations could have been substantially lower than for smaller organizations not subject to the proposal. Though the larger organizations would have still been subject to higher overall capital requirements, the lower marginal funding costs could have created a competitive disadvantage for smaller firms").

estimation is meaningfully understate, because the additive effect of operational risk RWA is not accurately calculated for these activities (*see Section 4*).

The potential economic impacts of many aspects of the B3 Proposal are wide-reaching, but the consequences of directly increasing the capital charges associated with retail lending are particularly significant. Retail lending allows Americans to build credit, begin saving, have a place to live and a means to get to work, yet credit card loans and auto lending remain calibrated well in excess of the advanced approach risk weights they are replacing, despite the U.S. framework requiring incremental capital through the SCB.

In addition to the B3 Proposal's economic effects, it would also likely accelerate the continued migration of mortgage origination out of the banking system. The nonbank share for agency originations has been steadily rising over the last decade, from 40% in 2013 to over 77% by the end of 2022.[38] This trend is likely to further accelerate given the proposed changes to mortgage risk weights, the additional mortgage-associated operational risk charges under ERBA (in addition to operational risk losses included in the SCB), as well as punitive revisions to capital required for securitization exposures. This is likely to lead to adverse consequences for both for the cost of mortgages[39] and potentially for financial stability.

Finally, the cost of retail lending is also impacted to a large degree by how these loans are funded. As described in more detail in Section 10, punitive revisions to the securitization framework will contribute to higher retail lending costs, as a large portion of consumer and business loans are funded by securitization, with banks serving as an integral part of that market.

In light of these observations, an empirically driven reassessment of all retail risk weights is warranted, as unnecessary conservatism comes with the potential for long-lasting and compounded negative consequences for all Americans.

Retail exposures recommendations (*see BPI / ABA and FSF comment letters*):

1. Adjust the over-calibration of retail risk weights, including those applicable to mortgages, auto lending, and credit card loans in particular, to reflect the advanced approach risk weights they are replacing, as well as the addition of an explicit operational risk RWA requirement;

2. Reduce the CCF applicable to unfunded portions of retail lines of credit to better align with historical experience[40];

3. Adjust capital required for securitization exposures (*see Section 10*);

4. Reduce aggregate required capital for operational risk (*see Sections 4 and 5*); and

5. Right-size the calibration of the GSIB surcharge, both for economic growth and the inflationary impact of the B3 Proposal (*see Sections 5 and 6*).

[38] The Urban Institute, "Housing Finance at a Glance: A Monthly Chartbook," (Jan. 2023), *available* here.
[39] Ann Choi, et.al., "Borrowers Turned to Nonbank Lenders for Mortgages – And It's Costing Them," Bloomberg (Dec. 18, 2023), *available* here. ("[n]onbank borrowers paid 22% more on average in origination charges than bank borrowers who bought similarly priced homes, received comparable interest rates and had similar incomes, debt loads and creditworthiness").
[40] "TCH Research Study: Empirical Analysis of BCBS-Proposed Revisions to the Standardized Approach for Credit Risk," The Clearing House (May 2016), *available* here.

Section 10: Securitization exposures

The securitization market is a crucial source of funding for the credit that U.S. businesses and households rely on, including corporate loans, commercial residential mortgages, credit cards, and auto loans. One of the primary benefits of securitization is that it facilitates a diversification of risk to sophisticated investors, allowing banks to extend greater amounts of credit to companies that are vital to the U.S. economy. By having a wider base of credit providers, the securitization market ultimately reduces borrowing costs for many households and businesses. The B3 Proposal's revisions to securitization exposures, however, would lead to a significant and unwarranted increase in the capital that banks are required to hold for these exposures.

While JPMC supports all of the recommendations included in the SFA comment letter, two issues with respect to the calibration of the Securitization-Standardized Approach (SEC-SA) warrant highlighting in this letter. Specifically, (i) the over calibration of the p-factor—particularly when combined with (ii) the U.S.' decision to not adopt a jurisdictionally appropriate version of the BCBS' simple, transparent, and comparable securitizations criteria to qualify for a reduced p-factor. These revisions are highly likely to decrease banks' capacity to hold securitization exposures, which would limit large banks' market making capacity, reducing liquidity in these markets. This reduction in liquidity results in higher costs on the underlying assets that are funded using securitizations, which directly impacts U.S. consumers and businesses.

Separately, the Agencies did not remedy existing shortcomings with respect to the current treatment of bona fide transfer of credit risk, stifling the ability for banks to transfer risk to sophisticated investors, which increases banks' capacity to lend to consumers and companies. This, particularly in conjunction with increases to required capital for securitizations, is likely to negatively affect the cost and availability of credit for consumers and companies.

Securitization recommendations (*see SFA comment letter*):

1. Improve recognition of bona fide transfers of risk by clarifying that direct issue credit linked notes can qualify as synthetic securitizations and replacing the accounting derecognition requirement under the operational criteria for traditional securitizations with a legal isolation requirement;
2. Eliminate the over-calibration of SEC-SA, including (i) retaining the existing 0.5 calibration of the calculation's p-factor, and (ii) introducing criterion for qualifying securitization transactions (QSTs) which if achieved, would be assigned a p-factor of 0.25;
3. Reduce aggregate required capital for operational risk (*see Sections 4 and 5*); and,
4. Right-size the calibration of the GSIB surcharge, both for economic growth and the inflationary impact of the B3 Proposal (*see Sections 5 and 6*);
5. Eliminate the requirement that a creditworthy investment grade company have publicly traded securities to qualify for a reduced risk weight (*see Section 8a*); and
6. Adjust the risk weights applicable to bank exposures (*see Section 9*).

Section 11: Banking book equity exposures

Under the current approach for equity exposures, the 100% risk weight category consists of (i) community development exposures, (ii) the effective portion of hedge pairs, and (iii) non-significant equity exposures, the aggregate adjusted carrying value of which does not exceed 10% of the bank's total capital. Despite the important public policy goals furthered by these types of investments made by banks, the B3 Proposal would eliminate non-significant equity exposures from the 100% risk weight category. The B3 Proposal also significantly increases the types of investments subject to higher (250-400%) risk weights relative to

BCBS, without any substantive analysis suggesting these exposures were previously undercapitalized or why the B3 Proposal should deviate from international standards.

Additionally, the B3 Proposal notes that community development investments would receive a 100% risk weight because they "generally receive favorable tax treatment and/or investment subsidies that make their risk and return characteristics different than equity investments in general" and are important "to promoting important public welfare goals." [41] These considerations apply equally to investments made pursuant to other nationally legislated programs, such as those that support—among other public policy goals—renewable energy, that likewise present less risk than other equity investments and more closely resemble loans. In a typical tax equity investment, the project sponsor will set up a limited liability company to conduct the activities eligible for tax credits. The tax credits that the project is eligible for are usually greater than the sponsor's tax liabilities, so the sponsor sells passive interests to tax equity investors. Those investors generally receive a pre-determined rate of return that is almost entirely based on the value of the tax benefits, leading to limited credit risk.[42]

Banking book equity recommendations (*see BPI / ABA and FSF comment letters*):

1. Similar to community development exposures, equity investments made pursuant to nationally legislated programs such as those related to renewable energy should be risk weighted at 100%;
2. The 100% risk weight for non-significant equity investments should be retained;
3. Reduce aggregate required capital for operational risk (*see Sections 4 and 5*)
4. Right-size the calibration of the GSIB surcharge, both for economic growth and the inflationary impact of the B3 Proposal (*see Sections 5 and 6*).

JPMC appreciates the opportunity to provide these comments. We would be pleased to provide any further information or respond to any questions.

Respectfully submitted,

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[41] 88 Fed. Reg. at 64,077
[42] American Council on Renewable Energy, et al., "Letter to Dr. Lael Brainerd" (Aug. 22, 2023), *available* here.