

SECURITIES INDUSTRY AND FINANCIAL MARKET ASSOCIATION AND INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC., GUOWEI ZHANG

Proposal and Comment Information

Title: Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement, R-1866

Comment ID: FR-2025-0026-01-C08

Subject

Docket R-1866 and RIN 7100 AG92

Submitter Information

Organization Name: Securities Industry and Financial Market Association and International Swaps and Derivatives Association, Inc.

Organization Type: Organization

Name: Guowei Zhang

Submitted Date: 06/23/2025

NONCONFIDENTIAL // EXTERNAL

Dear Ladies and Gentlemen,

The Securities Industry and Financial Markets Association and the International Swaps and Derivatives Association, Inc. respectfully submit the attached comment letter on the Federal Reserve Board of Governors' proposal titled "Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement" identified by Docket R-1866 and RIN 7100 AG92. We are happy to answer any questions you may have on the letter.

Thanks,
Guowei

Guowei Zhang, Ph.D.
Managing Director, Head of Capital Policy
Securities Industry and Financial Markets Association
1099 New York Avenue NW, 6th Floor, Washington DC,
20001<<https://www.google.com/maps/place/1099+New+York+Ave+NW+6th+floor,+Washington,+DC+20005/@38.9014772,-77.0290405,17z/data=!3m1!4b1!4m5!3m4!1s0x89b7b79392954ea1:0x378c9014468539bc!8m2!3d38.9014772!4d-77.0268518>>
Office: 202-962-7340 || Mobile: 443-994-6752
Email: gzhang@sifma.org<<mailto:gzhang@sifma.org>> || [Https: www.sifma.org](https://www.sifma.org)<<https://www.sifma.org/>>
|| [@SIFMA](https://twitter.com/sifma)<<https://twitter.com/sifma>>



By Electronic Mail

June 23, 2025

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Re: Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement, RIN 7100-AG92

Ladies and Gentlemen,

The Securities Industry and Financial Markets Association (“SIFMA”)¹ and the International Swaps and Derivatives Association, Inc. (“ISDA”² and, together with SIFMA, the “Associations”) appreciate the opportunity to comment on the proposal (“Proposal”)³ by the Federal Reserve Board of Governors (the “Board”) to revise its capital plan rule and stress capital buffer requirement (“SCB”). Consistent with the Associations’ membership and organizational focus, this letter focuses on the Proposal’s impact on capital markets activities of broker-dealers affiliated with large banking organizations including trading, market making, and other related financial services.

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

² Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on ISDA’s website: www.isda.org.

³ Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement, 90 Fed. Reg. 16,843 (Apr. 22, 2025).

I. Executive Summary

Stakeholders of all types and sizes rely on U.S. capital markets for a range of essential financial services, the availability and cost of which have a profound effect on U.S. economic growth and the well-being of American businesses and households. Large banking organizations serve as critical intermediaries, supporting the health and vibrancy of the U.S. capital markets by providing financing, market making and hedging services to a wide range of clients ranging from corporates to asset managers and smaller banking organizations. These large banking organizations are subject to a suite of capital requirements, including not just stress capital but also other risk-based and leverage capital requirements. Reforms that ensure aggregate capital requirements are proportionate to the underlying risks would enhance efficiencies in the capital markets.⁴ These efficiencies ultimately will flow through to a broad range of consumers and savers, all of whom benefit from lower cost of credit, stable prices for goods and services and opportunities to invest cost effectively in liquid and dynamic markets.

The Associations commend the Board for initiating efforts to address longstanding and unwarranted volatility of the SCB. In this Proposal, that volatility is primarily addressed by averaging SCB results over a two-year period (“simple averaging”). However, the Proposal fails to address more fundamental drivers of SCB volatility, including the implausibility of the supervisory stress scenarios and the overlap with the risk-based capital framework. These core issues lead to SCBs that are not only excessively volatile but also not reflective of underlying risks. The combination of excessive volatility and miscalibration relative to underlying risks constrains large banking organizations’ capacity to intermediate the U.S. capital markets and support economic growth. As such, broader and more material reforms that address these fundamental issues are required to ensure the supervisory stress testing framework remains relevant and effective.

As a matter of first principles, the Board should seek to ensure that the calibration of the prudential capital framework in its totality is proportionate to underlying risks and appropriately designed to facilitate economic growth and the provision of financing to the real economy. Although averaging SCB results would mitigate to some extent the adverse effects of the SCB on

⁴In her June 6, 2025 speech, the Board’s Vice Chair on Supervision Bowman rightly noted that “[o]ver-calibrated capital requirements effectively create market distortions, disfavoring some activities over others in a way that is divorced from prudential safety and soundness goals and economic conditions.” Michelle W. Bowman, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, *Taking a Fresh Look at Supervision and Regulation*, June 6, 2025, <https://www.federalreserve.gov/newsevents/speech/bowman20250606a.htm>

the ability of large banking organizations to engage in capital markets-related activity, this step alone is not sufficient to fix deeper flaws in the supervisory stress testing framework that, if unaddressed, will continue to impede large banking organizations' ability to fully support economic growth. To help ensure appropriate calibration of the prudential capital framework and improve transparency into the supervisory stress testing framework, the Board should also publish supervisory stress scenarios for public comment before finalizing them with sufficient detail to enable the public to provide comments that will enable the Board to make scenarios appropriately calibrated to underlying risk.⁵

To that end, the Associations highlight the following key recommendations, which are described in more detail below:

- **A banking organization should be permitted, for the 2025 stress testing cycle, to have its SCB requirement determined under the current SCB rule through September 30, 2026, regardless of whether the proposal is finalized with an effective date on or prior to October 1, 2026.** Additionally, the final rule—if it becomes effective January 1, 2026—should clarify that the SCB requirement effective through September 30, 2026, would apply through December 31, 2026.
- **An asymmetric averaging approach should be adopted to determine the SCB requirement.** Asymmetric averaging of two-year supervisory stress test results would enable SCB requirements to adapt quickly to reduced risks and allow large banking organizations time to manage increased risks, resulting in efficient capital allocation. By contrast, simple averaging would not allow firms to deploy capital to the same extent in response to reduced risks, because the prior year's results, reflective of a higher-risk environment, would flow through into the current year's SCB.
- **The dividend add-on component should be removed from supervisory stress tests.** The dividend add-on component is conceptually inconsistent with the maximum payout ratio requirement under the capital rules and should be removed from supervisory stress tests.
- **The supervisory stress testing framework includes assumptions that are not consistent with post-crisis reforms or market practice.** In response to the 2008 global financial crisis, numerous financial regulatory reforms have been put in place to curtail

⁵ The Board has already acknowledged that public comment on stress tests would “improve the transparency of its bank stress tests and to reduce the volatility of resulting capital buffer requirements.” Board of Governors of the Federal Reserve, Press Release, Dec. 23, 2024, available at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm>.

risk taking by large banking organizations in their capital markets-related activities in the United States, such as the Volcker rule, mandatory clearing of certain OTC derivatives, and the swap margin rule. In addition, banking organizations have significantly strengthened their own risk management practices. The current supervisory stress testing framework, which dates to early 2009, does not account for the risk-mitigating benefits of these post-crisis financial reforms and strengthened risk management practices, while also relying on assumptions that often contradict the requirements of these reforms. As such, the current supervisory stress testing framework is conceptually incoherent with the broader post-crisis reforms and not fit-for-purpose. The Associations commend the Board for committing to adjusting the supervisory stress testing framework. In light of that commitment, the Associations urge the Board to undertake reforms that ensure consistency with the post-crisis financial reforms and the current risk management standards of large banking organizations. For instance, the global market shock (“GMS”) does not account for benefits of diversification, resemble recent market stresses, or recognize significant improvements to the post-crisis capital framework or large banking organizations’ own risk management practices. The misalignment of the GMS and other aspects of the supervisory stress testing framework limits the ability of large banking organizations to intermediate in U.S. capital markets.

- **The supervisory stress testing framework is conceptually inconsistent with the RWA framework.** The current U.S. capital rules stipulate that large banking organizations must calculate certain RWAs to reflect stressed market conditions. As a result, stress losses arising from capital markets-related activities are captured by both the market risk and counterparty credit risk framework as well as the supervisory stress testing framework’s GMS and largest counterparty default (“LCD”) components. The U.S. Basel 3 Endgame proposal also would apply the SCB to the RWA framework, exacerbating the overlaps between the RWA framework and the supervisory stress testing framework. The Board should reform both the supervisory stress testing framework and the RWA framework to ensure their conceptual consistency.

II. Proposed Changes

The Proposal would change the current supervisory stress testing framework by: (1) averaging results across two years; (2) extending the annual effective date by one quarter; (3) modifying the dividend add-on component; and (4) revising stress test data collection forms.

- A. **A banking organization should be permitted, for the 2025 stress testing cycle, to have its SCB requirement determined under the current SCB rule through September 30, 2026, regardless of whether the proposal is finalized with an effective date on or prior to October 1, 2026.** Additionally, the final rule—if it becomes effective January 1, 2026—should clarify that the SCB requirement effective through September 30, 2026, would apply through December 31, 2026.

The Proposal would extend the annual effective date of the SCB from October 1 to January 1 and adjust the dividend add-on component to cover dividends issued in quarters five through eight, instead of four through seven, of the planning horizon. The Associations support the Board extending the annual effective date of the SCB, as this would provide large banking organizations with additional time to comply with their updated SCB.

However, as explained in our prior letter,⁶ the revised effective date of the upcoming SCB requirement would create uncertainty regarding SCB requirements resulting from the current stress test cycle, as a banking organization’s final SCB requirement (potentially based on a new methodology) could be materially different than its preliminary amount. To address this uncertainty, the Board should clarify that a banking organization would be permitted, for the 2025 stress testing cycle, to have their SCB requirements determined under the current SCB rule through September 30, 2026, regardless of whether the proposal is finalized with an effective date on or prior to October 1, 2026. Additionally, the final rule—if it becomes effective January 1, 2026—should clarify that the SCB requirement effective through September 30, 2026, would apply through December 31, 2026.

- B. **An asymmetric averaging approach should be adopted to determine the SCB requirement.**

The Associations support the Board taking measures toward addressing the volatility of the SCB. In particular, the Associations support the use of asymmetric averaging. Under this approach, if a firm’s projected common equity tier 1 (“CET1”) capital decline in the current year’s stress test exceeds that of the previous year, its SCB would be based on the average of the results for those two years. But if the projected CET1 capital decline is less than the prior year’s, the SCB would be based solely on the current year’s results. Asymmetric averaging allows for more timely recognition of reduced risks and gives large banking organizations time to manage increased risks. This time permits large banking organizations to optimize their balance sheets, leading to

⁶ Financial Services Forum, *Financial Associations Urge Federal Reserve to Address Potential Uncertainty Caused by Stress Capital Buffer Proposal Timing*, May 19, 2025, available at <https://fsforum.com/news/financial-associations-urge-federal-reserve-to-address-potential-uncertainty-caused-by-stress-capital-buffer-proposal-timing>

more efficient capital allocation and, thus, encourages lending and fosters economic growth. Asymmetric averaging therefore provides a better balance between risk sensitivity and volatility of the SCB than symmetric averaging. Indeed, asymmetric averaging would also be consistent with the asymmetric treatment used in the GSIB surcharge, under which an increase in a firm's GSIB surcharge will take place a full calendar year after the new GSIB surcharge is calculated, while a decrease takes place without that one-year delay.⁷

C. The dividend add-on component should be removed from supervisory stress tests.

The dividend add-on component is flawed as it requires banking organizations to pre-capitalize four quarters of dividends. However, banking organizations are restricted by the maximum payout ratio requirement under the capital rules, which would be implicated in a stress situation.⁸ If a banking organization's capital falls within the applicable payout ratio buffer zone, dividend payments will be restricted automatically without the Board's approval, especially if a banking organization's eligible retained income is negative. As such, the dividend add-on component is conceptually inconsistent with the maximum payout ratio requirement and should be removed from supervisory stress tests.

D. We support the proposed revisions to the FR Y-14A/Q/M forms.

The Proposal would (1) collect more granular data on compensation expenses, and (2) remove several items that capture information on non-recurring expenses that are no longer needed for the supervisory stress test. The Associations support the proposed streamlining of data collection.

III. The current supervisory stress tests should be reformed to ensure consistency with the post-crisis financial reforms.

We commend the Board for initiating efforts toward addressing the longstanding and unwarranted volatility of the SCB.⁹ The Proposal, however, fails to address the fundamental issues of SCB volatility. These fundamental drivers include the implausibility of the supervisory stress scenarios, the overlap with the RWA framework in risk capture, and more broadly the conceptual inconsistency of the current supervisory stress testing framework with the broader suite of post-crisis financial regulatory reforms. These post-crisis reforms, such as the Volcker

⁷ 12 CFR 217.403(d), available at www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-217/subpart-H/section-217.403.

⁸ 12 CFR 217.11(c), available at <https://www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-217/subpart-B/section-217.11>.

⁹ Board of Governors of the Federal Reserve, Press Release, Dec. 23, 2024, available at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm>.

rule, mandatory clearing of certain OTC derivatives, and the swap margin rule, are designed to curtail risk taking by large banking organizations in their capital markets-related activities in the United States. By not addressing these fundamental issues, current SCB requirements (and those under the Proposal) are not only excessively volatile but also not reflective of underlying risk, severely limiting large banking organizations' ability to provide capital markets services. As such, broader and more material reforms that address these fundamental drivers are required to ensure the supervisory stress testing framework remains relevant and effective.

Fundamentally, the Board should ensure that the calibration of the prudential capital framework in its totality is proportionate to underlying risks and appropriately designed to facilitate economic growth and the provision of financing to the real economy. The Board should also publish supervisory scenarios for public comment before finalizing them, which would provide transparency as well as enhance the Board's ability to ensure that supervisory scenarios are plausible and adequately backed by appropriate empirical data. Scenarios should be published with sufficient detail so that large banking organizations can understand how the scenarios would apply to specific business lines. This detail will improve the Board's ability to receive constructive comments that will improve the alignment of the SCB with underlying risks.

Since the 2008 global financial crisis, numerous post-crisis financial regulatory reforms have been put in place to curtail risk taking by large banking organizations in their capital markets-related activities in the United States, such as the Volcker rule, mandatory clearing of certain OTC derivatives, and the swap margin rule. But the supervisory stress testing framework, which dates to early 2009, does not account for this broader suite of post-crisis reforms and relies on assumptions that often contradict the requirements of these reforms. In addition, banking organizations have significantly strengthened their own risk management practices. As such, the current supervisory stress testing framework is conceptually incoherent with the broader post-crisis reforms and not fit-for-purpose.

SCB results are excessively volatile due to fundamental design flaws in the supervisory stress testing framework. Although averaging stress test results may help reduce volatility that is not justified by underlying risk, additional reforms to the supervisory stress testing framework are needed to fully address this excessive volatility and related over-calibration. Without reforms that address these design flaws, the SCB will continue to limit large banking organizations' capacity to intermediate the U.S. capital markets relative to underlying risks, and, thereby, constrains the banking sector's ability to support economic growth. To avoid further constraining financial intermediation and economic growth, supervisory stress tests must be based on

supervisory scenarios that are transparent, plausible, and adequately backed by appropriate empirical data without any arbitrary or unrealistic assumptions. To increase transparency, the Board should publish supervisory scenarios for public comment with sufficient detail so that large banking organizations and the public can provide constructive comment on proposed scenarios, and, thus, improve the quality of scenarios.

A. The supervisory stress testing framework includes assumptions that are not consistent with post-crisis reforms or market practice.

The implausibility of GMS scenarios illustrates this point. The Board’s own formal stress test policy standard states, among other things, the GMS should consider “hypothetical but plausible outcomes.”¹⁰ In its cross-motion for summary judgement submitted on April 29, 2025 in response to the lawsuit filed by BPI et al. in 2024,¹¹ the Board states that “[t]o help ensure that the largest banking firms have sufficient capital to withstand *plausible* economic stress, the Board uses quantitative models to help develop new scenarios each year that are based on real-world economic data”.¹²

However, in 2019 SIFMA conducted a careful study analyzing the plausibility of the GMS scenarios over the years.¹³ In particular, the study concluded that these scenarios—including both the size of shocks to different risk factors and correlation assumptions—are not empirically plausible. For example, the GMS scenarios assume the worst shocks to different risk factors across all asset classes materialize simultaneously, meaning the scenarios assume no diversification benefits at all; this is counterfactual and can be easily refuted by empirical data. The lack of diversification benefits amplifies the impacts of any year-over-year changes in the GMS scenarios, resulting in volatile GMS and LCD loss estimates which are not reflective of underlying risks. This excessive volatility and miscalibration relative to underlying risks have the effect of constraining large banking organizations’ ability to engage in capital markets-related

¹⁰ Appendix A to 12 CFR 252: Risk-Based Capital Surcharge for Global Systemically Important Bank Holding Companies, available at www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-252/appendix-Appendix%20A%20to%20Part%20252.

¹¹ Bank Policy Institute, *Banks and Business Groups File Legal Challenge Against Federal Reserve Over Flawed Stress Testing Framework*, Dec. 24, 2024, <https://bpi.com/banks-and-business-groups-file-legal-challenge-against-federal-reserve-over-flawed-stress-testing-framework/>

¹² *Bank Policy Institute v. Board of Governors of the Federal Reserve System*, Defendant’s Cross-motion for Summary Judgment, No. 2:24-cv-04300 (S.D. Ohio, Apr. 29, 2025), available at <https://storage.courtlistener.com/recap/gov.uscourts.ohsd.299067/gov.uscourts.ohsd.299067.49.0.pdf>

¹³ SIFMA, *Global Market Shock and Large Counterparty Default Study* (2019), available at <https://www.sifma.org/resources/general/global-market-shock-and-large-counterparty-default-study/>

activities.¹⁴ Importantly, this result has not changed over time. Table 1 in the Appendix updates the statistics reported in Figure 7 of the 2019 study. The updated results show that the conclusions of the study remain valid when extending the analysis of the study to include the market stresses experienced during the COVID-19 pandemic and the Silicon Valley Bank collapse in March 2023.

The interaction between the Volcker rule and GMS scenarios further demonstrates the implausibility of assumptions under the GMS. The Volcker rule, part of the Dodd-Frank Act, generally prohibits banking organizations from engaging in proprietary trading or investing in or sponsoring hedge funds or private equity funds. The proprietary trading ban largely disallows banking organizations from taking directional and unhedged positions in financial instruments.¹⁵ However, the design of GMS scenarios effectively assumes that large banking organizations do not comply with the Volcker rule and instead take directional and unhedged risks.

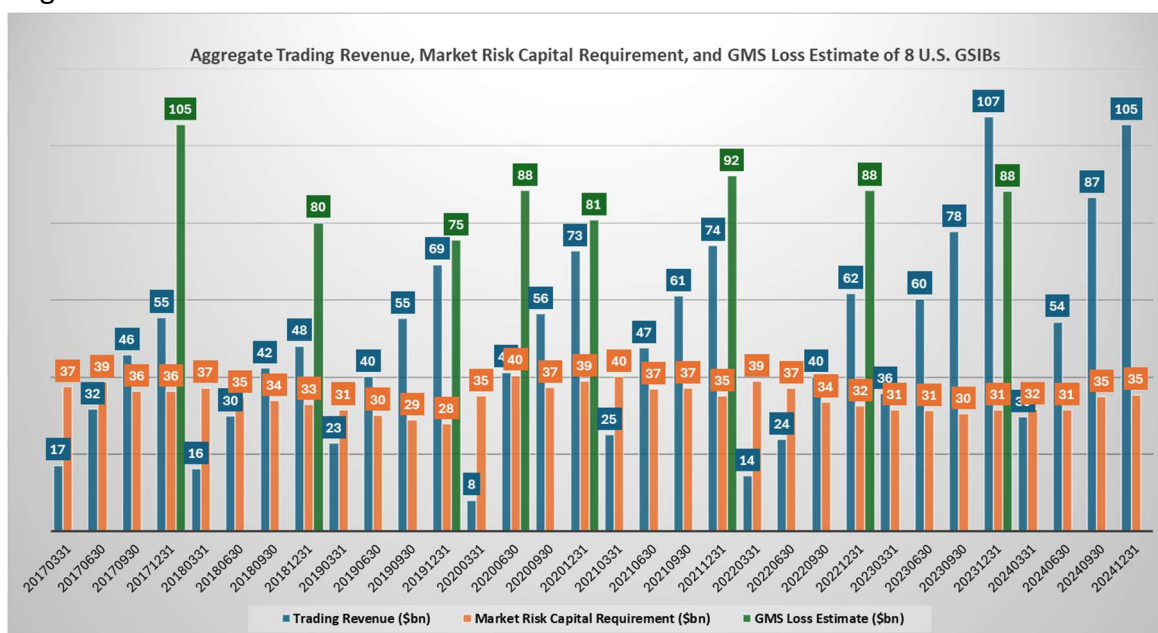
The LCD component of the supervisory stress test is another probative example. To calculate the LCD loss estimate, the current supervisory stress test requires banking organizations to assume that no further margins are collected from their derivatives counterparties. This assumption is in direct contrast with the uncleared swap margin rules and mandatory clearing of certain OTC derivatives, pursuant to which margins must be exchanged. This post-crisis requirement that results in mandatory margining reduces counterparty credit risk for banking organizations, a dynamic the LCD component does not recognize. This particular LCD assumption is also inconsistent with banking organizations' own prudent counterparty credit risk management practices, i.e., collecting margins from counterparties.

Due to the risk limitations imposed on banking organizations' capital market activities by these post-crisis financial reforms, large banking organizations' trading-related activities consistently generate substantial revenues rather than losses, even during periods of recent market stress, such as the COVID-19 pandemic, the Russian-Ukraine war, and tariff uncertainty (as illustrated in Figure 1). Unfortunately, the risk-reducing benefits of these post-crisis reforms and risk management practices are not taken into account by the current supervisory stress testing framework.

¹⁴ SIFMA, *US Stress Test Capital Requirements Are Excessively Volatile and Overestimate Losses* (2022), available at <https://www.sifma.org/resources/news/blog/u-s-stress-test-capital-requirements-are-excessively-volatile-and-over-estimate-losses-identifying-the-problem-and-how-to-solve-it/>

¹⁵ Antonio Falato, Diana Iercosan, and Filip Zikes, *Banks as Regulated Traders*, *Journal of Financial Economics* 170(2025).

Figure 1. Aggregate trading revenue, market risk capital requirement and GMS loss estimate of the eight U.S. GSIBs.



Separately, we encourage the Board to seek public comment on the scoping criteria of GMS. The criteria have been in place for over a decade and should be revisited in the context of holistic review of the prudential capital standards and ensure aggregate capital requirements are proportionate to underlying risks.

B. The supervisory stress testing framework is conceptually inconsistent with the RWA framework.

In addition, there is a material overlap in risk capture by the current supervisory stress testing framework and the RWA framework that should be addressed. The current U.S. capital rules stipulate that large banking organizations must calculate RWA for market risk and credit risk under the standardized approach, and additionally for credit valuation adjustment (“CVA”) risk and operational risk under the advanced approaches. The RWA must be calibrated to reflect stressed market conditions. The SCB requirement is applied to the standardized approach. Stress losses arising from large banking organizations’ capital markets-related activities are captured by both the supervisory stress testing framework’s GMS/LCD components and the RWA framework’s market risk and counterparty credit risk framework. As a result, there is an overlap between the RWA framework and the GMS/LCD components of the supervisory stress testing framework in capitalizing trading and counterparty related losses.

In July 2023, the Board and other banking agencies released the U.S. Basel 3 Endgame proposal which would increase the stringency of stress calibration for current capital rules, especially market risk and CVA risk. The proposal also would apply the SCB to both the standardized approach and the expanded risk-based approach (“ERBA”), which would replace the current advanced approaches. Because trading and counterparty losses and losses from operational-risk events are included in the supervisory stress testing framework, applying the SCB to the ERBA would exacerbate the overlaps between the RWA framework and the supervisory stress testing framework, as described below.

First, the risk of losses resulting from pricing changes (market risk), changes in counterparty credit spreads (CVA risk), and counterparty defaults (counterparty credit risk) are accounted for under the respective components of the ERBA. These risks are similarly addressed by the GMS and LCD components within supervisory stress tests. The severity of risk factor shocks and the constraints relating to the recognition of diversification used to estimate losses under both the ERBA and GMS are largely comparable.

Second, losses resulting from operational risk are accounted for under the ERBA and are adequately capitalized even in stress scenarios. A recent PwC study has shown that, “[w]hen comparing historical loss rates to capital requirements, maximum two-year average loss rates...are 48% for operational risk,” meaning that “banks would be required to hold operational risk capital for about double the maximum amount of loss ever experienced.”¹⁶ These losses are captured separately by the PPNR component of the supervisory stress tests.

Third, there are numerous examples where the risk-based capital requirements in totality can exceed maximum losses. For example, over 15% of all securitization issuances in 2023 would be subject to aggregate capital requirement in excess of maximum economic loss taking into account capital charges from both the ERBA and SCB.¹⁷ In these instances, the banking organization would be better off if the full value of securitization holdings were reduced to zero, as that would increase capital ratios for the banking organization. Such a perverse outcome is a direct consequence of the RWA and supervisory stress testing frameworks which, in their totality,

¹⁶ PricewaterhouseCoopers, *Our Take: PwC’s Financial Services Update (2023)*, available at <https://explore.pwc.com/baseliiiendgame-operational-risk>.

¹⁷ This estimate is based on data available in Bloomberg, combined with the relevant GMS shocks applicable for the 2023 supervisory stress tests. All 2023 securitization issuances are available in Bloomberg. Bloomberg also has a built-in simplified supervisory formula approach calculator. Finally, the GMS shock in the supervisory stress test is calibrated based on vintage, credit quality, and underlying asset class, all of which is also available on Bloomberg.

are not reflective of underlying risks.¹⁸ Recognizing that the Basel securitization framework is not reflective of underlying risks and aiming to revitalize its securitization market, the European Commission is considering revisions to its securitization capital framework, potentially lowering both risk weight floor and the p-factor which drives the miscalibration of the resulting capital requirements.¹⁹

It is critical that the Board ensures the calibration of the prudential capital framework in its totality is proportionate to the underlying risk. Left unaddressed, these overlaps limit large banking organizations' capacity to intermediate in the U.S. capital markets, and, thereby, constrains the banking sector's ability to support economic growth.

IV. Conclusion

The Associations appreciate the opportunity to submit our comments on the Proposal. We are strongly committed to maintaining the safety and efficiency of U.S. financial markets and hope the Agencies implement our recommendations, which reflect the extensive knowledge and experience of market professionals within the Associations and our members. Our recommendations are designed to make the U.S. capital framework more risk sensitive to avoid the potential adverse consequences of the Proposal on financial markets, consumers, end-users and the economy more generally. Please contact Guowei Zhang at gzhang@sifma.org or (202) 962-7340 and Lisa Galletta at lgalletta@isda.org or (917) 624-3411 if you wish to discuss the points raised in this letter further.

Sincerely,



Guowei Zhang
Managing Director, Head of Capital Policy
SIFMA



Lisa Galletta
Head of US Prudential Risk
ISDA

¹⁸ SIFMA, *Basel III Endgame Blog Series*, available at <https://www.sifma.org/wp-content/uploads/2024/06/Basel3-Endgame-Blog-Series-v3.pdf>.

¹⁹ European Commission, *Targeted Consultation on the Functioning of the EU Securitisation Framework*, Feb. 17, 2025, available at https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-functioning-eu-securitisation-framework-2024_en.

* * *

Appendix

Table 1 below (which updates Figure 7 in the SIFMA 2019 GMS study) presents the most severe asset class shocks across the prior CCAR cycles and identifies the most adverse experience (and the date of that experience) across one-, 10-, 90- and 180-day intervals. The analysis demonstrated there was considerable volatility year-over-year in individual asset classes. The highlighted **yellow boxes** indicate where a GMS shock exceeds the historical most adverse performance for that asset class. Across the board, all GMS shocks exceeded the most adverse 1-day performance, with about 80% of the GMS shocks exceeding the most severe historical 10-day experience. Similarly, the GMS shocks were higher than the most adverse three-month period for about 60% of asset classes sampled and were higher than the most adverse six-month experience for roughly 50% of asset classes sampled. The six-month calibrated shock assumes that all price movements that occurred over the six-month period happen over one day, which precludes any risk mitigating activity. The highlighted **purple boxes** indicate where the Largest Adverse Moves were observed post the SIFMA 2019 study.

Table 1. Largest Adverse GMS Shocks in CCAR History Compared to Largest Adverse Market Moves Across Historical Trading Periods.

	Spreads				Equity	FX		Rates	
	A-rated Corporate Bond	BBB-rated Corporate Bond	B-rated Corporate Bond	Credit Card ABS	U.S. Equities (S&P 500)	GBP/USD	EUR/USD	U.S. TSY 2Y	U.S. TSY 10Y
Largest Adverse GMS Shock	414.00	640.30	1,604.00	-3,310.00	-38.30%	-26.70%	-17.40%	-134.60	-162.20
Largest Adverse GMS Shock Year	2016	2015	2016	2013-2015	2022	2016	2019	2023	2016
One-Day									
Largest Adverse Move	68.18	70.13	197.02	-841.15	-20.47%	-8.06%	-4.96%	-51.60	-75.00
Largest Adverse Move Date	09/15/2008	07/01/2002	09/17/2001	10/20/2008	11/19/1987	06/24/2016	11/01/1978	09/17/2001	10/20/1987
10-Day									
Largest Adverse Move	196.90	261.22	528.0	-906.86	-29.57%	-14.86%	-8.99%	-94.80	-215.00
Largest Adverse Move Date	03/23/2020	03/25/2020	03/20/2020	10/20/2008	10/19/1987	09/21/1992	09/16/1992	09/19/2001	11/09/1981
Three-Month									
Largest Adverse Move	312.44	451.57	1,074.41	-1,256.38	-42.15%	-24.58%	-19.94%	-199.50	-385.00
Largest Adverse Move Date	10/20/2008	12/04/2008	12/05/2008	10/31/2008	11/20/2008	11/09/1992	10/27/2008	01/17/2008	05/06/1980
Six-Month									
Largest Adverse Move	374.95	524.90	1,325.80	-1,340.90	-46.64%	-30.79%	-21.89%	-290.90	-437.00
Largest Adverse Move Date	10/20/2008	12/16/2008	12/12/2008	10/31/2008	03/09/2009	01/23/2009	11/20/2008	03/17/2008	10/13/1982