MORGAN STANLEY, SHARON YESHAYA, ET. AL.

Proposal and Comment Information

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

Comment ID: FR-2025-0026-01-C11

Submitter Information

Organization Name: Morgan Stanley

Organization Type: Organization

Name: Sharon Yeshaya, et. al.

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Please see attached comment letter submitted by Sharon Yeshaya and Charles Smith.

Morgan Stanley

June 23, 2025

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

Re: SCB Averaging Proposal and Related CCAR Modifications

Ladies and Gentlemen:

We appreciate the opportunity to comment on the notice of proposed rulemaking published by the Board of Governors of the Federal Reserve System (the "**Board**") to modify the Board's stress capital buffer ("**SCB**") framework and make related changes to its Comprehensive Capital Analysis and Review ("**CCAR**") practices (the "**Proposal**").[1]

Executive Summary

The Board publicly committed itself in 2024 to "seek public comment on significant changes to improve the transparency of its bank stress tests and to reduce the volatility of resulting capital buffer requirements."[2] We support this overarching objective as well as the Board's efforts to advance it through the Proposal, which we understand to be the first step towards a broader set of reforms.

We have four principal comments on the Proposal:[3]

- **SCB Reform: We encourage the Board to eliminate the dividend add-on component of the SCB and to adopt proposed changes to SCB mechanics expeditiously and no later than September 30, 2025**. We also request that the Board provide guidance confirming that firms will be permitted to operate under SCBs incorporating single-year 2025 CCAR results, as calculated under current regulatory standards, during any transition period to a revised SCB framework taking effect in 2026.[4]

- **CCAR Reform: We encourage the Board to improve the transparency and risk management value of CCAR by adopting quantitative parameters governing scenario and shock design.** In addition, the Board should provide firms with nonpublic,

[1] 90 Fed. Reg. 16,843 (Apr. 22, 2025). Docket No. R–1866, RIN 7100–AG92.
[2] Board, Press Release, Dec. 23, 2024 (link).
[3] In addition to our comments in this letter, we support comments on the Proposal submitted by the Financial Services Forum and American Bankers Association, the Bank Policy Institute, and the Securities Industry and Financial Markets Association and International Swaps and Derivatives Association.
[4] 90 Fed. Reg. at 16,849 (Question 15).

detailed explanations of any overlays applied to modeled results. We also support the Board's efforts to improve CCAR modeling practices in certain areas by revising data collection templates. We encourage the Board to adopt these reforms by December 31, 2025, so that they are in place for 2026 CCAR.

- **Uniform, Public Standards for Stress Scenarios: In connection with broader CCAR reform efforts, any standards related to a banking organization's modeling of stress scenarios should be provided uniformly and publicly to all firms.** Firms should operate under identical regulatory standards and technical guidance adopted through a notice-and-comment rulemaking process.

- **SCB/Basel III Endgame Interplay: When finalizing the Proposal, the Board should publicly confirm that it will not apply the SCB to its proposed enhanced risk-based capital framework ("Basel III Endgame"), if such framework is adopted as a final rule.**[5] While there are a range of complex issues in any Basel III Endgame implementation, core methodological features—in particular, the introduction of a standardized Operational Risk measure—would result in substantial duplication with CCAR. Any "one stack" solution, if pursued, would require a new proposal to reconcile CCAR and risk-based capital standards.

1. SCB Reform

The dividend add-on component of the SCB should be eliminated

The Proposal requests comment on whether the dividend add-on should be removed from the SCB calculation.[6] We believe that it should.

The inclusion of the dividend add-on in the original SCB rulemaking represented a novel experiment in regulatory capital standards unmoored from the Basel Accord framework and inconsistent with the approaches of other major jurisdictions. After five years of operation, its weaknesses have become manifest, particularly in light of related Eligible Retained Income ("**ERI**") mechanics that apply when a capital buffer is breached. The Board should eliminate this add-on when finalizing the Proposal, for three reasons.

First, the dividend add-on is unnecessary to support prudent capital management because ERI restrictions and capital planning standards effectively prevent unsustainable dividend payments. When adopting the original SCB rulemaking, the Board justified the dividend add-on as a response to the fact that "[d]uring the last financial crisis, many firms continued to make significant distributions of capital, including through dividends, without due consideration of the effects that a prolonged economic downturn could have on their capital adequacy."[7] But the Board has addressed this issue through other post-crisis reforms, including through the imposition of various regulatory capital buffers that, if

[5] 88 Fed. Reg. 64,0289 (Sep. 18, 2023).
[6] 90 Fed. Reg. at 16,850 (Question 21).
[7] 85 Fed. Reg. 15,576, 15,579 (Mar. 18, 2020).

breached, impose automatic restrictions on capital actions (including dividends) and through formal regulatory requirements imposing forward-looking capital planning standards.[8] As a result, under current standards, a large bank holding company ("**BHC**") would be unable to continue to make significant distributions of capital, including through dividends, if its capital position deteriorated to the point that it breached its regulatory buffers and lacked sufficient ERI to continue making distributions.[9] As the capital level of a banking institution falls further into the buffer, the restrictions become tighter as a percentage of ERI, until firms operating in the zero percent portion of the buffer are completely prohibited from paying dividends regardless of their accumulated ERI. Without the dividend add-on, the SCB would be exclusively based on CCAR stress-loss estimates, thereby ensuring "due consideration of the effects that a prolonged economic downturn could have on [firms'] capital adequacy." The putative problem justifying the dividend add-on has already been solved by several other post-crisis regulatory standards adopted by the Board.

Second, the dividend add-on magnifies concerns with capital buffer usability, a topic that has received significant attention from the Board and independent researchers. In March 2020, at the onset of the COVID pandemic, the Board publicly encouraged "banking organizations to use their capital and liquidity buffers as they respond to the challenges presented by the effects of the coronavirus."[10] Reviewing COVID-period evidence, a 2024 Board staff research paper concluded that "banks were reluctant to use their regulatory buffers to absorb pandemic losses, and instead curtailed lending to SMEs during the pandemic."[11] This reluctance should not be surprising. In practice, there are two types of capital buffers: regulatory buffers, including the SCB and the GSIB Surcharge, breaches of which result in automatic capital action restrictions, and management buffers, which firms maintain to operate above regulatory buffers. BHCs have strong incentives to avoid breaching regulatory buffers; even de minimis breaches may have a significant stigmatizing effect. An increase in the magnitude of regulatory buffers effectively requires firms to layer on higher management buffers—including management buffers to enable ongoing near-term payment of dividends—resulting in a "buffers on buffers" effect. Eliminating the dividend add-on component of the SCB would restore near-term capital management decisions to the realm of management buffers that firms dynamically manage to operate above regulatory buffers and eliminate firms' need to maintain near-term dividend capacity separately in both management buffers and the SCB.

Third, elimination of the dividend add-on would reduce unnecessary complexity and improve coherence in the capital framework. In its current form, the Board's risk-based capital framework includes three distinct buffers—the SCB, the GSIB Surcharge, and the counter-cyclical capital buffer—a breach of any of which results in automatic ERI-based capital action restrictions. The Board adopted each of these buffer standards in different years and has not publicly explained whether, when considered in totality, they effectively advance the Board's policy objectives. Including the dividend add-on in the SCB adds yet another layer of additional complexity to this framework and, as explained above, is unnecessary to

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[8] 12 C.F.R. § 225.8.
[9] 12 C.F.R. § 217.11.
[10] Board, "Joint Press Release: Statement on the Use of Capital and Liquidity Buffers," Mar. 17, 2020 (link).
[11] Jose M. Berrospide, Arun Gupta, and Matthew P. Seay (Board staff), "The Usability of Bank Capital Buffers and Credit Supply Shocks at SMEs during the Pandemic," International Journal of Central Banking (Jul. 2024), p. 186 (link).

support prudent capital management at large BHCs. Elimination of the dividend add-on in the SCB would represent a first step toward simplifying the Board's regulatory capital framework—each buffer would operate with the same ERI mechanics—and would align with the Board's 2020 decision to not impose a dividend add-on mechanic in leverage ratio standards after previously considering this option, strengthening the coherence of related prudential standards.[12]

The Board sought comment on whether to eliminate the dividend add-on, which could be accomplished through a targeted technical change to the SCB mechanics. We encourage the Board to include elimination of this add-on in an SCB averaging final rulemaking adopted by September 30, 2025.

The Board should adopt proposed changes to SCB mechanics expeditiously and no later than September 30, 2025

In December 2024, the Board publicly committed itself to propose revisions to the SCB that would "average[e] results over two years to reduce the year-over-year changes in the capital requirements that result from the stress test." In the same announcement, the Board also committed itself to seek "public comment on all of the models that determine the hypothetical losses and revenue of banks under stress" and to ensure "that the public can comment on the hypothetical scenarios used annually for the test, before the scenarios are finalized."[13]

The Proposal advances the Board's commitment to implement two-year averaging of CCAR results in the SCB. The Board can and should adopt a final rulemaking to implement the Proposal expeditiously—and independent of any timeline necessary for model and scenario comment. The changes in SCB mechanics contemplated by the Proposal do not involve technical complexity and will impact firms' capital planning projections for future years. Adoption of a final rule by September 30, 2025, would provide firms with planning certainty as they prepare to operate under new SCBs calculated based on 2025 CCAR results and does not require completion of model and scenario comment processes.

The SCB effective date should be moved to January 1

The Proposal requests comment on whether the annual SCB effective date should be moved from October 1 to January 1.[14] We support a revised January 1 effective date, which should be confirmed by a final rulemaking adopted by September 30, 2025.

Moving the SCB effective date to January 1 would create alignment with the annual GSIB Surcharge effective date, reducing the risk of volatility in regulatory capital requirements.[15] Under current standards, a firm's capital requirement can change in the fourth quarter (SCB) and again in the first quarter (GSIB Surcharge), posing challenges for capital management if there are significant changes

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[12] See 83 Fed. Reg. 18,160, 18,183 (Apr. 25, 2018) (proposing a stress leverage ratio buffer requirement); 85 Fed. Reg. at 15,582 (explaining the Board's rationale for not adopting a stress leverage ratio buffer requirement).
[13] Board, Press Release, Dec. 23, 2024 (link).
[14] 90 Fed. Reg. at 16,850 (Question 17).
[15] 12 C.F.R. § 217.403(d).

taking effect in each quarter. A January 1 effective date also permits firms with an additional quarter to make adjustments in capital actions or business plans, if necessary to meet a revised SCB.

Revisions to SCB mechanics should include appropriate transition provisions

Until the Board adopts a final rulemaking, large BHCs remain subject to the current SCB framework, which incorporates single-year CCAR results. While the Board has proposed to revise the SCB framework to incorporate two-year averaging of CCAR results, as of the date of this letter it is unclear what SCB mechanics will govern the calculation of SCBs for the complete four-quarter period between October 1, 2025, and September 30, 2026. Under current rules, the SCB for this full period would incorporate single-year 2025 CCAR results; under the Proposal, the SCB for this period would incorporate the two-year average of 2024 and 2025 CCAR results beginning on January 1, 2026, after initial application of single-year 2025 CCAR results in an SCB taking effect on October 1, 2025. The Board should address this ambiguity by providing public guidance in the near term—before adoption of a final rule—that firms will be permitted to operate under SCBs incorporating single-year 2025 CCAR results, as calculated under current regulatory standards, during any transition period to a revised SCB framework taking effect in 2026. Ideally the Board would provide such public guidance before or in connection with its release of 2025 CCAR results on June 27 so that firms, investors, counterparties and other marketplace participants have a common understanding of the durability of SCBs calculated in connection with 2025 CCAR.[16]

We encourage the Board to address similar transition issues directly in a final rulemaking to implement the Proposal. For example, a final rulemaking should address fourth quarter transition issues arising from moving the SCB effective date from October 1 to January 1. The Board should, for instance, permit firms to choose between extending, by one quarter, their legacy single-year SCBs that otherwise expire on September 30 or accelerate adoption, by one quarter, of their two-year averaged SCBs.[17] This approach would ensure a clean transition from the legacy SCB framework; incorporate an early adoption mechanism utilized by the Board in other rulemaking implementations, such as SA-CCR; [18] and reinforce orderly capital planning and risk management practices by ensuring clear expectations on transition options.

2. CCAR Reform

The Board should adopt quantitative parameters in policy statements to establish a clear framework for CCAR scenarios and shocks

The Board's 2024 announcement explained that its CCAR reform plans include "ensuring that the public can comment on the hypothetical scenarios used annually for the test, before the scenarios are finalized." We support the Board's plan to release its scenarios for public comment and encourage the

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[16] Board, Press Release, Jun. 13, 2025 (link).
[17] Depending on when a final rulemaking is adopted and the length of time before revised SCB mechanics take effect, there could be other transition issues to address. For example, if the dividend add-on is retained, a rulemaking may need to consider whether or which quarters of projected dividends are relevant for SCBs calculated under legacy and future standards.
[18] 12 C.F.R. § 217.300(g).

Board to codify in policy statements clear quantitative parameters to govern the development of scenarios and shocks released for comment.

The adoption of expanded quantitative parameters governing scenario design and shocks would build on the Board's existing practice of setting CCAR quantitative parameters in specific areas, most notably unemployment rates and house price declines.[19] There are clear advantages to setting such parameters: the realism of the Board's assumptions are transparently explained, the outer-limits of CCAR severity are understood by firms and the marketplace, and the Board retains discretion to develop specific scenarios in a given year in response to prevailing economic conditions but within the broad boundaries established in the policy statement.

The Board's plan to seek comment on annual CCAR scenarios underscores the need to broaden the use of quantitative parameters for scenarios and shocks. Formal CCAR policy statements should set, for example, the quantitative boundaries of individual asset class shocks included in the Global Market Shock ("**GMS**") component, with the purpose of identifying severe but plausible outer boundaries; the degree to which the GMS will recognize cross-asset class correlations; the extent to which the Largest Counterparty Default ("**LCD**") component will incorporate counterparty-specific margining arrangements; and identification of a wider set of economic variables, beyond the unemployment rate and house price declines, that will inform the macroeconomic scenario.

If the Board does not set quantitative parameters in CCAR policy statements it will be forced to propose and justify GMS, LCD and macroeconomic scenario calibration choices in each annual scenario notice-and-comment process. By contrast, adoption of quantitative parameters would establish clear standards for each annual exercise, providing the Board with flexibility—within the boundaries set by the parameters—to propose specific scenarios and shocks and justify adoption of final versions based on policy statement criteria. The absence of such quantitative parameters would effectively make each annual notice-and-comment process a de novo exercise where every element of the proposed scenarios and shocks is subject to debate.

As a next step, the Board should release, by September 30, 2025, proposed quantitative parameters in formal policy statements or policy statement amendments. While adoption of formal parameters by final rule may not be possible before 2026 CCAR, publication of proposed quantitative parameters concurrent with the comment period for 2026 CCAR scenarios and shocks would allow the Board and commenters to consider parameter calibrations responsive to the issues highlighted by the proposed design of 2026 CCAR. We believe the Board's current scope of GMS variables is materially correct, which should facilitate prompt progress forward on establishing parameters. In addition, while a subset of GMS variables may be put out for public comment, we would strongly recommend including all the current variables in the final publication of GMS.

[19] 12 C.F.R. Part 252 Appendix A §§ 4.2.2(a), 4.2.3(c).

The Board should adopt a formal requirement that it will notify and provide a detailed explanation to firms if it applies overlays or other modifications to CCAR model results

The SCB applied to each large BHC incorporates, as an element, the projected decline in each firm's capital ratio in the annual CCAR exercise. The Board publicly discloses these projected ratios, enabling firms, investors, counterparties and other marketplace participants to analyze each firm's projected financial position in stress relative to the specific scenarios and shocks of the most recent CCAR cycle. Annual scenarios and shocks directly inform CCAR results, which in turn directly inform resulting SCBs.

The process summarized above is consistent with the Board's public explanation in the 2020 SCB final rulemaking that "it will use the results of its supervisory stress test to determine a firm's stress capital buffer requirement."[20] In April 2025, however, the Board asserted in a court filing that, in practice, it does not necessarily calculate CCAR results based on its analysis of firms' current year data in current year CCAR scenarios and shocks. The Board "occasionally exercises case-specific discretion in determining whether to apply overlays to firm-specific data prior to application of the stress test models to produce the firms' final results." The Board further asserted:

> [The Board has] discretion to determine, on a case-specific basis, that a given year's test—for any number of reasons—is an inappropriate measure of a given firm's actual risk profile. In such a circumstance, the Board can choose to administer a new, off-cycle supervisory stress test or use a different year's test in determining that firm's applicable SCB requirement. For instance, the Board can opt to use the prior year's stress test results for a given firm when the given year's results inappropriately measures the firm's actual risk profile due to situational factors. The fact that the Board exercises discretion in determining which stress test results will be applied to each particular firm further demonstrates the individualized nature of each SCB requirement determination.[21]

This explanation raises core doubts about the extent to which each firm's CCAR results are, in practice, grounded in the firm's projected performance in CCAR scenarios and shocks. This explanation also stands in sharp contrast to the Board's prior explanations of the CCAR process. For example, as recently as 2024, the Board asserted:

> The Federal Reserve generally does not adjust supervisory projections for individual firms or implement firm-specific overlays to model results used in the stress test. This policy ensures that the stress test results are determined by supervisory models and firm-specific input data.[22]

Notwithstanding the Board's earlier public explanations, we assume that its April 2025 statement—made in a court filing—accurately describes its CCAR practices. If the Board does not, in actuality, strictly calculate CCAR results based on each firm's current year CCAR submission data as applied in the current year version of the Board's CCAR models, that raises foundational concerns with the operation of the CCAR process. Even accepting the Board's logic that "case-specific" adjustments

[20] 85 Fed. Reg. at 15,576.
[21] Board, Cross-Motion for Summary Judgment, *Bank Policy Institute et al vs Board* (Apr. 29, 2025), pp. 25-26.
[22] Board, 2024 Supervisory Stress Test Methodology (Mar. 2024), p. 4 (link).

may be justified in certain cases, the Board should be compelled to notify affected firms and provide a nonpublic explanation of the adjustments made.

The need for providing such notifications takes on added urgency given the Board's plans to publish CCAR models and scenarios for comment. While, in current practice, there is considerable opacity in how the Board calculates CCAR results, publication of CCAR models will create greater transparency. Firms and the broader marketplace may be able to detect adjustments made by the Board to CCAR results based on overlays or data selection choices extraneous to current year CCAR models or data. If such adjustments reflect the Board's supervisory judgments, assessments of firms' risk profiles or similar "situational factors," affected firms should receive a transparent and complete explanation, including with supporting detail on the nature of the overlays and how they impacted specific stress loss or PPNR components. In addition to bolstering the integrity of the CCAR process, such explanations would provide valuable insight to firms as they incorporate CCAR results in their capital management and risk management programs.

The Board's model disclosure should identify and provide methodological clarity with respect to all variables used in CCAR analysis

The Board currently discloses only a limited range of variables used in its CCAR models. For example, the Board's 2025 CCAR scenarios document identified 16 domestic variables and 12 international variables.[23] The Board's disclosures, however, suggest that it utilizes other variables in its analysis; for example, the Board's 2024 CCAR methodology document references mortgage rates as a utilized variable, even though that variable is not identified in the scenario document.[24] The utilization of a large number of variables is logical, as it would likely take thousands of variables to reliably forecast large BHCs' capital ratios in a severe economic downturn.

The Board's public disclosures in each annual CCAR cycle should include detailed disclosures on all variables utilized by CCAR models and how such variables flow through models. Such disclosures are a logical extension of model disclosures, providing greater transparency not only on the design of the Board's supervisory stress test (models) but also the specific quantitative inputs driving results in those models (variables). For similar reasons, expanded disclosure of variables is a logical extension of seeking comment on proposed scenarios and shocks in each annual cycle. In substance, scenarios and shocks are implemented through the calibration, combination and paths of specific variables.

Expanded disclosure of variables would also improve public confidence in the CCAR process and help to identify miscalibrations, if any, in specific variables. In addition to providing summary firm-specific analysis in its CCAR disclosure, the Board also provides banking system-level assessments of strength and resilience.[25] Expanding disclosures to include all information on the calibration, combination

[23] Board, 2025 Stress Test Scenarios, Tables 3.A, 3.B (link).
[24] Board, 2024 Supervisory Stress Test Methodology, Table 6 (link).
[25] See, e.g., Board, 2024 Federal Reserve Stress Test Results, p. 13, Box 2 (link) ("The results of the 2024 supervisory stress test indicate large banks would experience substantial losses under the severely adverse scenario but would maintain common equity tier 1 (CET1) capital ratios above the required minimum regulatory levels throughout the projection horizon.").

and paths of specific variables would allow firms and independent researchers to review the variables and confirm the rigor of the Board's analysis, reinforcing confidence in the analysis.

We support the Board's efforts to revise PPNR data collection practices and recommend certain technical changes to reporting forms to improve clarity and accuracy

The Proposal acknowledges that the Board's reporting forms for collecting PPNR data do "not currently segment the portion of total compensation that is variable in a firm's business. Therefore, the supervisory stress test may not adequately consider the role of variable compensation or the correlation between compensation and compensable revenue." To address this issue, the Proposal would add two new reporting line items "to capture data on compensable revenues and commissions on the compensable revenues."[26]

We support the Board's efforts to clarify PPNR reporting data fields to address this specific category of compensation-related expenses. In some business lines, an employee's compensation is set in accordance with a standardized, fixed formula, or "grid," in which the compensation is calculated as a percentage of identifiable revenues or client assets. In these cases, a severe economic downturn that reduces relevant revenues or client asset valuations—for example, such would be expected in a severely adverse economic downturn—will flow through the grid, reducing related compensation expenses. As suggested by the Proposal, accurate PPNR calculations in the severely adverse scenario require accurate compensation forecasts, which would be enabled by the proposed reporting form changes.

The Appendix to this letter includes certain technical recommendations to improve the clarity and accuracy of the proposed reporting form changes.

The Board should streamline and simplify FR Y-14 reporting processes, including by eliminating data attributes and scenarios not required for stress testing

The Proposal requests comment generally on FR Y-14 series reporting processes.[27] We applaud the Board's efforts to request comment in this area, which could be made more efficient and targeted in support of the Board's CCAR program.

In connection with its broader reform efforts, we encourage the Board to conduct a complete review of existing FR Y-14 series reports to identify reported items that are not, in practice, used in CCAR models and to eliminate any such items in amended forms. Such a review process should be conducted concurrently with publication of the Board's CCAR models.

In addition, the Board should align regulatory reporting forms where practicable (e.g., Call Report, Y-9C, Y-14 A/Q/M, Y-15, FFIEC 009).[28] The forms collect overlapping data but differences in line-item instructions and definitions create an extra reporting burden and increase the possibility for

[26] 90 Fed. Reg. at 16,856.
[27] 90 Fed. Reg. at 16,850 (Question 24).
[28] As an example, several reports require sector disclosures and sector classifications are inconsistent across reports. This inconsistency requires maintenance of additional and separate reference tables in Morgan Stanley's systems to map the different classifications and consequently requires additional reconciliations.

errors in reporting. Where reports aim to collect substantially the same sets of data, line items and definitions should be aligned. Changes to forms should be coordinated such that implementation for changes takes place at the same time or in an appropriate sequenced cadence. To reduce reporting burden, repetitive actuals reporting should be eliminated. For example, the majority of the actuals in a.1.d Capital should be removed as they are already reported in FR Y-14Q and FR Y-9C. Similarly, for the FR Y-14Q, line items already collected in FR Y-9C and FFIEC 101 forms should be removed. Finally, all reports should use the notional values for derivatives calculated under SA-CCR, obviating the need to maintain a separate CEM calculation for firms required to use SA-CCR.

The Board should also provide more time to implement future changes and ensure updated forms and instructions are published well in advance of the relevant reporting dates. At times the Board does not publish updates until the middle of the month reports are prepared, which adds unnecessary burden. When changes are made, such changes should be implemented consistently across relevant reports.[29] Phased implementation adds burdens to data sourcing and system and process design. For similar reasons, the Board should conform rounding conventions across FR Y-14 and Y-9C.

3. Uniform, Public Standards for Stress Scenarios

The Board should provide any guidance related to stress scenarios publicly and uniformly to all firms

The Board's regulations require that firms develop internal stress scenarios as an element of the annual capital planning process and that firms compute and disclose company-run results of supervisory scenarios.[30] Standards governing firms' internal stress scenarios and company-run computations of supervisory scenarios should be uniform across all institutions, publicly disclosed, and adopted through notice-and-comment rulemaking processes. Firms should have certainty that requirements governing their modeling of supervisory or internal stress scenarios apply uniformly and consistently across all institutions through notice-and-comment rulemaking processes.

4. SCB/Basel III Endgame Interplay

The Board should publicly confirm that it will not apply the SCB to proposed Basel III Endgame RWAs

The Board adopted its CCAR program more than a decade ago and, in 2020, integrated CCAR with risk-based capital requirements by adopting the SCB framework. When adopting the SCB, the Board specifically considered the interplay of CCAR stress testing with the design and calibration of the legacy Standardized Approach, including through economic impact analysis considering the number of banking organizations that would have above-floor SCBs.[31] The Board's 2023 Basel III Endgame proposal

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[29] There have been several recent instances of inconsistent implementation: TDR replacement with the new ASU was implemented across FR Y-9C (9C), Call report and FR 2314 in phases; NDFI expansion was made in Call report but not in 9C / FR Y-14Q (14Q), Non-Purpose Loans reporting update was made in Call Report but not in 9C or 14Q.

[30] 12 C.F.R. § 225.8(e)(2)(i)(A)(2).

[31] 85 Fed. Reg. at 15,590.

includes no similar analysis, even though proposed Basel III Endgame RWAs include a range of stress period-based calibrations and introduce two entirely additive RWA components. With this context, we recommend that the Board, when adopting the Proposal, publicly confirm that it will not apply the SCB to Basel III Endgame, if the latter is adopted as a final rule.

Morgan Stanley submitted a detailed comment letter to the Board in 2024 explaining the conceptual and technical challenges of applying the SCB to Basel III Endgame RWAs, as proposed by the 2023 rulemaking.[32] Our comments highlighted how the Board developed its CCAR program in parallel to, but independent of, the Basel Committee's decade-long post-crisis effort to revise RWA standards. As a result, many core features of the Basel III Endgame proposal—in particular, proposed Operational Risk, Market Risk and Credit Valuation Adjustment standards—replicate similar capital management and risk management analyses imposed through CCAR. While the Board has signaled its willingness to reconsider the Basel III Endgame proposal, we encourage it to confirm publicly that the SCB will not be applied to proposed Basel III Endgame RWAs if they are adopted in a final rulemaking.

Integration of CCAR with Basel III Endgame RWAs would require a new proposed rulemaking

Our recommendation that the Board publicly confirm the inapplicability of the SCB to proposed Basel III Endgame RWAs is informed by the design of the 2023 Basel III Endgame proposal, which would retain a "two stack" RWA framework, with the SCB applying in each stack. In this formulation, the SCB is clearly not well-suited to apply to the proposed Basel III Endgame RWA "stack."

If, however, the Board sought to develop a "one stack" approach that excluded unnecessary elements of the global Basel Accord, it might be possible to integrate CCAR and RWA standards harmoniously.[33] Such an effort would require a new proposed rulemaking and, in the meantime, the Board could address lingering uncertainty over its 2023 rulemaking by clearly stating at the SCB would not be applied to the previously proposed version of Basel III Endgame RWAs.

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We appreciate the Board's consideration of our comments in this letter.

Sincerely,

Sharon Yeshaya	Charles Smith
Chief Financial Officer	Chief Risk Officer

[32] See Letter from Sharon Yeshaya and Charles Smith, Appendix 1, Jan. 16, 2024 (link).

[33] See Deputy Treasury Secretary Michael Faulkender, Remarks Before U.S. Bancorp Fly-In Meeting (May 13, 2025) (link) ("To the extent that the Basel Committee's Endgame standards can provide inspiration, we could borrow selectively from them. But this should only be done to the extent that we can independently validate the underlying rationale and then make that rationale available for public comment.").

Appendix: Proposed Compensation Expense PPNR Reporting Changes

The Proposal would add two new memo items to Schedule G (items 28.F (Compensable Revenues) and 28.G (Commissions from WM or FA activities)) to capture data on compensable revenues and commissions on the compensable revenues. For consistency between the FR Y–14Q and the FR Y–14A, the Proposal would make corresponding revisions to FR Y–14A, Schedule A.7.a (PPNR Projections).[34]

We support the Board's steps to collect this data, which will enable it to calculate more accurate compensation-related expenses in PPNR projections. We recommend that the Board consider the following clarifications to the proposed reporting line items.

Item 28.F (Compensable Revenues)

Proposed Item 28.F would be a memo item that does not roll up into the Item 28 total. As a memo item, this information will provide the Board with important reference information to improve PPNR forecasting accuracy.

We recommend this definition for this line item: "The aggregate amount of client fees and commissions or any other gross revenue credits that qualify for inclusion in the calculation of a financial advisor's incentive compensation."

This definition, if adopted, would accurately capture the relevant scope of revenues that are incorporated into the standardized, fixed formula, or "grid," when setting financial advisor compensation and would be durable over time.

Item 28.G (Commissions from WM or FA activities)

Similar to the prior item, proposed Item 28.G would be a memo item that provide the Board with reference information to improve PPNR accuracy.

We recommend changing the name of this line item to "Incentive compensation for WM or FA activities." The word "commission" is more widely used in the financial services industry and applicable laws and regulations to refer to amounts paid by clients to firms or advisors rather than to the incentive-based compensation paid by firms to advisors. Since the latter is what is being captured by this line item, changing the name would avoid potential ambiguity.

We recommend this definition for this line item: "The aggregate amount of cash remuneration provided to all financial advisors for the current reporting period, inclusive of any fixed, regular payments, including minimum salaries (salaries required by applicable state laws), other cash awards, such as bonuses and incentive compensation that are determined as a ratio of compensable revenue." Deferred cash-based compensation amounts are excluded because compensation expenses for DCP awards is calculated based on the notional value of the award granted, adjusted for changes in the fair value of the referenced investments that financial advisors select. Compensation expenses for DCP is

[34] 90 Fed. Reg. at 16,856.

recognized over the vesting period relevant to each separately vesting portion of the deferred awards. Similarly, deferred equity-based awards are also excluded from the definition. By focusing on the current reporting period FA compensation and excluding DCP compensation expenses, this definition would isolate compensation amounts that are calculated based on compensable revenues for the period, establishing a clear linkage between Item 28.F and Item 28.G.