FERMAT CAPITAL MANAGEMENT, LLC, ADAM DENER

Proposal and Comment Information

Title: Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL, R-1873

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Subject

Submitter Information

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Organization Type: Company

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FERMAT
CAPITAL MANAGEMENT

Ms. Ann E. Misback
Secretary of the Board
Board of Governors of the Federal Reserve System
Washington, DC 20551

October 28, 2025

Dear Ms. Misback,

I am writing about a gap in the public accounting disclosure requirements for synthetic securitization reporting in bank financial statements, for both Regulation Q[1] (the "capital rule") and Basel Capital Accord (the "Pillar 3")[2] disclosures. Specifically, the current disclosure requirements regarding the utilization of synthetic securitization by regulated banks are not adequate for depositors, investors and counterparties to accurately assess the loss reserving of a bank in question. Typically, relevant information would be encapsulated in an "allowance for credit losses" estimate in the financial statement, but such disclosure is not required for synthetic securitizations. The effect of this disclosure gap is to increase financial instability risk.

Given the wide variety of synthetic securitization transaction structures, bank disclosures do not provide for a consistent approach on how the impact of different structures can flow through the financial statements for credit losses. The Financial Accounting Standards Board does not provide for specific disclosure requirements and recently declined a request to add such a disclosure to its technical agenda for development.[3] Pillar 3 disclosures are also not required by reference in bank financial statements and, absent the statement filer incorporating a clear Pillar 3 disclosure by reference in the statements, users therefore cannot adequately assess the statements for credit losses.

Further, as you as aware, regulated banks typically request the Board to grant approval for specific capital treatment for certain types of transactions, such as those utilizing credit-linked notes (CLN), but other transaction structures, such as cash collateralization, require no action from the Board. Mechanisms such as CLNs provide credit support for the synthetic securitizations. In granting such applications, in some cases the Board provides preauthorization for future transactions with some restrictions with respect to the bank's total capital. For example, in the case of a recent CLN, the

[1] https://www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-217
[2] https://www.federalreserve.gov/boarddocs/press/bcreg/2003/20030430/attachment5.pdf
[3] https://www.fasb.org/page/PageContent?pageId=/news_and_meetings/past-meetings/01-15-25.html&bcpath=tff

Board stated that, "this action applies only to the CLN transaction and other substantially identical CLN transactions up to an aggregate outstanding reference portfolio principal amount of the lower of 100 percent [of the Member's total capital]".[4] In that filer's recent annual[5] and quarterly[6] financial statements, clear credit loss disclosure regarding the CLN transactions is not provided to users, despite the fact that these filings were made in a period of varied loss provisioning among other regulated institutions.

As noted above, such a disclosure gap not only raises uncertainty around the financial condition of individual institutions, but also across broader banks and bank holding companies. This, taken together with existing investor access to Federal Reserve facilities[7] through authorized parties[8], suggests to investors, depositors and counterparties to be wary and, as a result, to consider running first and asking questions later should individual or collective financial shocks arise.

I request that the issues raised in this letter be referred to the Board for further investigation.

Yours sincerely,

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Cc: Senate Banking Chair and Ranking Member
House Financial Services Chair and Ranking Member
Securities Exchange Commission Chair
Financial Accounting Standards Board Chair

[4] https://www.federalreserve.gov/supervisionreg/legalinterpretations/bhc_changeincontrol20230929.pdf
[5] https://www.morganstanley.com/content/dam/msdotcom/en/about-us-ir/shareholder/10k2024/10k1224.pdf
[6] https://www.morganstanley.com/content/dam/msdotcom/en/about-us-ir/finsup3q2025/finsup3q2025.pdf
[7] https://www.federalreserve.gov/monetarypolicy/overnight-reverse-repurchase-agreements.htm
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