U.S. BANCORP, JOHN C. STERN

Proposal and Comment Information

Title: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, R-1887

Comment ID: FR-2026-0007-01-C110

Subject

U.S. Bancorp Comment Letter (Docket No. R-1887, RIN 7100-AH20)

Submitter Information

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Organization Type: Organization

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Submitted Date: 06/18/2026

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Ladies and Gentlemen:

U.S. Bancorp is pleased to submit the attached comment letter on the notice of proposed rulemaking (Docket No. R-1887, RIN 7100-AH20) issued jointly by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency amending the interagency regulatory capital rules. Thank you.

Regards,

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June 18, 2026

Via Electronic Mail

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Re: Notice of Proposed Rulemaking Titled Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations

Ladies and Gentlemen:

U.S. Bancorp, together with its subsidiaries and affiliates (collectively, "U.S. Bank" or "we"), appreciates the opportunity to comment on the notice of proposed rulemaking (the "Proposal") issued jointly by the Board of Governors of the Federal Reserve System ("Board"), Federal Deposit Insurance Corporation ("FDIC"), and Office of the Comptroller of the Currency (together with the Board and FDIC, the "Agencies") amending the interagency regulatory capital rules for certain large banking organizations.[1]

Headquartered in Minneapolis, Minnesota, U.S. Bancorp is the parent company of U.S. Bank National Association, the fifth-largest commercial bank in the United States. We have three major business lines that serve 15 million clients throughout the U.S., Canada and Europe, and a team of nearly 70,000 supporting our clients every day. U.S. Bancorp had average total consolidated assets of $693 billion and period-end total consolidated assets of $701 billion as of March 31, 2026.

The Proposal represents one of the most significant and comprehensive changes to the risk-based regulatory capital framework for U.S. banking organizations since the Agencies comprehensively revised the regulatory framework in 2013 to begin implementing the Basel Committee on Banking Supervision's ("Basel Committee") Basel III standard.[2] The objectives of the Proposal, which implements the final components of the Basel III standard, are to enhance risk sensitivity, reduce complexity and burden, and improve the consistency of the risk-based regulatory capital framework. We support the fundamental objectives of the Proposal and appreciate that the Agencies holistically considered the regulatory capital framework—including the capital planning and stress testing requirements—in calibrating and assessing the impact of the Proposal. Nonetheless, we believe that certain aspects of the Proposal would benefit from targeted changes and clarification to ensure, among other things, that the risk-based regulatory capital requirements remain aligned with underlying economic risk and avoid unintended cliff effects. These limited aspects include:

- Clarifying that the transition period for recognizing accumulated other comprehensive income ("AOCI") in regulatory capital would not be curtailed if a banking organization changes categories after the effective date;

- Bifurcating the effective dates for the core provisions of the Proposal and the AOCI requirements and establishing the ability to adopt certain requirements early;

- Enhancing the risk weight calibration of mortgage servicing assets to better reflect the underlying assets;

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[1] Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 Fed. Reg. 14,952 (March 27, 2026).

[2] Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule, 78 Fed. Reg. 62,018 (Oct. 11, 2013) (hereinafter the "2013 Basel III Final Rules").

- Retaining the existing, longstanding definition of commitments; and

- Revising the proposed credit conversion factor for unconditionally cancellable commitments related to transactor accounts.[3]

The changes recommended below would strengthen the Proposal's implementation, preserve appropriate risk incentives, and promote stability and predictability in capital planning, while fully supporting the Agencies' prudential and other policy objectives.[4]

I. AOCI Transition Adjustments and Final Rule Effective and Compliance Dates

Clarifying the AOCI Transition Provisions

Under the current regulatory capital rules, Category I and II banking organizations are required to include most elements of AOCI in regulatory capital.[5] The Proposal would permit any banking organization subject to the regulatory capital rules to adopt the proposed expanded risk-based approach for determining risk-weighted assets.[6] Any banking organization that avails itself of this option would also be required to reflect most elements of AOCI in regulatory capital, subject to a phase-in period of five years from the effective date of the final rule.[7]

In parallel to the Proposal, the Agencies also requested comment on a proposed rule that would modify the standardized approach for determining risk-weighted assets in the existing risk-based regulatory capital rules and the definition of regulatory capital for certain banking organizations (the "Standardized Proposal" and, together with the Proposal, the "Proposals").[8] The Standardized Proposal would require Category III and IV banking organizations that currently do not recognize AOCI in regulatory capital to include most AOCI components in regulatory capital, subject to a five-year phase-in

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[3] Our technical recommendations for recalibrating certain other proposed requirements on a targeted basis are included in the Appendix.

[4] With respect to these and other recommendations for improving the Proposal, we note our participation in and support of the comment letters submitted jointly by the (i) Bank Policy Institute, American Bankers Association, et al. (the "Joint Trade Association Letter"); (ii) Securities Industry and Financial Markets Association, et al.; and (iii) Structured Finance Association. The recommendations in this letter are intended to supplement the comments in these letters.

[5] *See, e.g.*, 12 CFR 3.20(b)(3) and 12 CFR 3.22(b)(1).

[6] *See* Proposal at 14,957 and 14,962. *See also* proposed § __.10(b)(5).

[7] *See* Proposal at 14,957 and 14,962. *See also* proposed § __.300(a).

[8] Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15,332 (March 27, 2026).

period from the effective date of the final rule.[9] This phase-in is akin to the treatment the Agencies provided to those banking organizations that are already required to recognize most elements of AOCI in regulatory capital.[10]

Absent an important clarification to the Proposal, however, it would appear that a banking organization that is currently in Category III or IV and that becomes a Category I or II banking organization during the five-year AOCI transition period would lose the benefit of any remaining transition period upon changing categories.[11] To promote consistency in how changes to the treatment of AOCI are implemented across the banking industry, incentivize economic growth and avoid unintended cliff effects, we believe it is critical that the Agencies clarify in the final rules that the AOCI transition arrangement would continue to apply upon a change in category and that a banking organization would not forfeit the remainder of any AOCI transition period merely by becoming a Category I or II banking organization.

Absent the full benefit of such a transition period, a banking organization's regulatory capital would likely experience unnecessarily abrupt impacts that are unrelated to changes in economic risk. The lack of a full transition period would also create uncertainty in capital planning, asset-liability management and strategic planning processes.[12] The need to ensure a phase-in approach when requiring banking organizations to include AOCI in regulatory capital is well established. For instance, recognizing that including elements of AOCI in regulatory capital without an appropriate transition would be unnecessarily disruptive, the Agencies provided a clear, multi-year transition path when they initially required certain banking organizations to include most AOCI components in regulatory capital in 2013.[13] The Agencies' impact analysis in the Proposal also states that a long-term perspective is required in order to appropriately assess the impact of including AOCI in capital, as "[c]apital market and yield curve developments can at times" drive "substantial AOCI fluctuation."[14] Accordingly, we urge

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[9] *See* Standardized Proposal at 15,336. *See also* proposed § __.300(a). The separate transition provisions of the Proposal would appear to overlap if codified as proposed.

[10] *See* 2013 Basel III Final Rules at 62,078.

[11] This also appears to be the case for a banking organization that currently has no category (e.g., a banking organization with less than $100 billion in assets) that chooses to adopt the expanded risk-based approach and subsequently becomes a Category I or II banking organization. Although the Proposal would revise the existing timing provisions of the regulatory capital rules (*see* § __.1(f)), the proposed language is not sufficiently clear that the proposed AOCI transition would be unaffected by a banking organization's change in category.

[12] Other banking organizations may also view this uncertainty as a disincentive to voluntarily adopting risk-weighted asset approaches that otherwise better align regulatory capital with underlying risk.

[13] 2013 Basel III Final Rules at 62,078.

[14] Standardized Proposal at 15,377.

the Agencies to ensure the benefits of a full transition period are available to all banking organizations that would be required to include AOCI in regulatory capital.

Clarifying the Effective and Compliance Dates

Given the scope and operational complexity of the proposed changes, banking organizations need certainty that there will be sufficient lead time to plan, implement, and validate systems, models, and governance processes. The Proposal lacks sufficient clarity regarding the effective date of the various changes under a final rule.

To provide banking organizations with the necessary flexibility to manage the impact of proposed changes to the regulatory capital framework and related requirements holistically, we recommend the Agencies make the proposed AOCI changes for Category III and IV banking organizations effective independent of the other provisions of the Proposal. In this regard, the Agencies could follow the precedent set by prior rulemakings, including the 2013 Basel III Final Rules and the 2019 changes simplifying the regulatory capital rules. The requirements for certain banking organizations to include AOCI in capital implemented via the 2013 Basel III Final Rules were effective earlier (2014) than the standardized approach framework for determining risk-weighted assets (2015) adopted by those same rules.[15] Similarly, in 2019, the effective date of the final rules was October 1, 2019 but only certain provisions were effective immediately with other provisions taking effect on April 1, 2020 to allow banking organizations sufficient time to update systems and the Agencies sufficient time to update reporting forms to reflect the changes.[16] Accordingly, our proposed approach would be consistent with prior rulemakings and provide greater stability to covered banking organizations' regulatory capital ratios given the expected opposite impacts of including AOCI in regulatory capital and implementing a more risk-sensitive approach for determining risk-weighted assets.[17]

The Agencies should make the requirement to phase AOCI into regulatory capital effective for existing Category III and IV banking agencies as of January 1, 2027.[18] This approach would not only allow the Agencies to accomplish the policy objectives of expanding the requirement to include AOCI in capital more quickly but also it would allow

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[15] 2013 Basel III Final Rules at 62,028-62,029 and 62,078.

[16] Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 84 Fed. Reg. 35,234, 35,243 (July 22, 2019).

[17] *See* Standardized Proposal at 15,366.

[18] Alternatively, the final rules could take effect January 1, 2028 (with the ability to opt in early as discussed below) provided that any AOCI impacts under the current rules tied to a banking organization's category are suspended and aligned with the five-year transition period under the final rules.

the Agencies to better balance the cumulative impact of the revised capital framework on banking organizations' capital ratios.[19] The other requirements should have an effective date of January 1, 2028 but the final rules should expressly allow any banking organization the option to adopt certain requirements early (for example as of October 1, 2027), prior to any mandatory compliance date and without a requirement to provide four quarters notice.

II. Risk Weight Calibration of Mortgage Servicing Assets (MSAs)

We appreciate the thoughtful approach and questions included in the Proposal related to MSAs. The Proposal would eliminate the threshold-based deduction for MSAs for all banking organizations to "eliminate a strong disincentive for mortgage origination and mortgage servicing by banking organizations".[20] Accordingly, all MSAs would become subject to a 250 percent risk weight. To further reinforce the Proposal's objective of "remov[ing] a regulatory disincentive for residential mortgage servicing and origination",[21] and in response to the Agencies' question in the Proposal regarding the appropriateness of a 250 percent risk weight, we encourage the Agencies to revise the treatment of MSAs to align the risk weight of MSAs with the credit risk of the underlying mortgage exposures, such as through loan-to-value ("LTV")-based calibration under the Proposal or, alternatively, a simple 100 percent risk weight.

In doing so, the Agencies should exclude interest rate-driven valuation effects from regulatory capital and rely on existing supervisory frameworks to address those risks. This approach would promote consistency with the broader capital framework (focused on the credit risk of exposures) and improve risk sensitivity of mortgage-related exposures. Research published recently by Federal Reserve System staff on MSA valuation under stress[22] supports both the position that the proposed 250 percent risk-weight for all

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[19] This is because a banking organization's capital ratios would not reflect any impact of including AOCI until the second year of the proposed five-year transition period. As proposed, the transition rules would require a banking organization to subtract 100 percent of the transition AOCI adjustment amount in year one of the transition period. *See* proposed § ___.300(a).

[20] Proposal at 14,956.

[21] Proposal at 14,955.

[22] *See* Elul, et al., *Mortgage Servicing Right Valuations Under Stress* (June 4, 2026), *available at https://www.federalreserve.gov/econres/notes/feds-notes/mortgage-servicing-right-valuations-under-stress-20260604.html*. This analysis concludes that the decrease in MSA valuations attributable to higher mortgage defaults during a period of severe economic stress "could range from 5% to 13%, depending on the scenario". An 8 percent decrease in MSA valuations—consistent with one of the more severe scenarios the analysis considered—would correspond with a risk weight of 100 percent.

MSAs is too high and that the LTV ratio of the underlying mortgage would be a reasonable proxy for the credit risk associated with an MSA.

Consistency with the Capital Framework's Treatment of Economically Linked Interests

Additionally, throughout the capital framework, exposures whose value and cash flows are economically linked to an underlying exposure are generally assigned capital requirements that reflect the risk characteristics of the underlying exposure. This principle is applied consistently across multiple asset classes, including:

- Accrued interest receivables, which are risk-weighted in accordance with the risk weight of the underlying exposure to which the interest relates;

- Securitization exposures, where residual interests, tranches, and other cash-flow entitlements are capitalized based on the credit risk of the underlying pool of assets;[23] and

- Equity investments in funds, where standardized approaches apply look-through treatment such that the risk weight of the investment reflects the risk weights of the fund's underlying exposures.[24]

MSAs arise as a byproduct of originating or acquiring mortgage loans and represent the contractual right to receive servicing cash flows contingent on continued borrower performance.[25] Valuation of MSAs depends on the present value of expected net income associated with servicing the underlying mortgages, and that net income depends on borrower default (credit risk) and prepayment (interest rate risk) rates.[26] The credit risk associated with MSAs, therefore, stems directly from borrower default on the underlying mortgage loans, rather than from an independent credit exposure created by the servicing asset itself.

Calibrating MSA risk weights without reference to the default risk of the underlying mortgage loans is inconsistent with the framework's established treatment of economically linked interests and results in capital requirements that are misaligned with the true source of risk.

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[23] *See, e.g.*, 12 CFR 3.43.

[24] *See, e.g.*, 12 CFR 3.53.

[25] *See supra* note 22.

[26] *Id.* "When borrowers default more than expected, MSR valuations fall because servicing delinquent and defaulted loans is considerably more expensive than servicing performing loans."

Recognition of Valuation Dynamics Through Capital

Changes in the value of MSAs are reflected directly in retained earnings[27] and, therefore, flow immediately through to a banking organization's regulatory capital. As a result, fluctuations in MSA valuations are already captured transparently and on a timely basis within capital measures, without requiring an additional overlay through risk-weight calibration. This treatment ensures the impact of changing economic conditions is appropriately recognized while preserving the integrity of the capital framework's focus on the credit risk of banking book exposures.

Supervisory Oversight and Risk Management Expectations

Adjusting the calibration of MSA risk weights does not diminish the importance of prudent risk management by banking organizations or supervisory oversight. Banking organizations remain subject to comprehensive supervision regarding the size, composition, and risk profile of their MSA portfolios, including expectations around hedging practices and exposure management.

Consistent with existing hedging principles in the market risk capital rule,[28] a banking organization should maintain clearly defined strategies governing the management and hedging of MSA exposures. These strategies should be approved by senior management and articulate the level of risk the institution is willing to accept. In addition, institutions should specify the instruments, techniques, and approaches used to manage and mitigate risks associated with MSA portfolios.

Such an approach ensures that institutions do not accumulate outsized or unhedged exposures while preserving flexibility to manage these assets in a manner consistent with their business models and risk appetites. Supervisory processes, including ongoing monitoring and stress testing, provide an effective mechanism to assess the adequacy of these practices and address any emerging risks.

Calibration Based on Underlying Mortgage Credit Risk

Because the credit risk of MSAs is entirely dependent on the performance of the underlying mortgage loans, the appropriate risk-weight treatment should be based on the LTV ratios and corresponding mortgage risk weights, as established by the Proposal. Consistent with the objective of removing a regulatory disincentive for residential mortgage servicing and origination, this treatment would ensure risk sensitivity, internal

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[27] *See* Accounting Standards Codification 860-50-30 Servicing Assets and Liabilities.

[28] 12 CFR Part 3, Subpart F; 12 CFR Part 217, Subpart F; and 12 CFR 324, Subpart F.

consistency, and alignment with observed mortgage default behavior. If the Agencies believe this framework would be overly complex or operationally burdensome, particularly given that banking organizations of all sizes should be able to benefit from a more appropriate treatment, we would support a simplified 100 percent risk weight as a reasonable alternative. That recalibration would be closer to the underlying credit dependency on mortgage performance and improves transparency and usability.

III. Retain the Current Definition of "Commitment"

The Proposal would fundamentally revise the long-standing definition of "commitment" under the regulatory capital rules, introducing ambiguity, uncertainty, and new operational burden and complexity.[29] This definition has been grounded in the principle that "[c]ommitments are defined as any *legally binding* arrangements that *obligate* a bank to extend credit . . ." since the Agencies first adopted the risk-based regulatory capital rules in 1989.[30] This anchoring principle—the existence of a legally binding obligation to fund—has provided banking organizations a clear, objective standard for determining what is a "commitment" for nearly 40 years. The Proposal does not articulate a compelling reason to replace this long-standing definition or provide an impact assessment for the proposed change.

For the reasons summarized below and as discussed in further detail in the Joint Trade Association Letter, we ask that the Agencies *not* adopt the proposed revisions to this definition and the definition of "unconditionally cancelable" (which, under the current rules, is used in conjunction with "commitment" for certain types of exposures including, among others, credit cards and home equity lines of credit).[31] Retaining the current, well-established definitions would provide consistency (with the existing regulatory capital rules, parallel prudential regulations, and related regulatory reporting requirements),[32] maintain alignment with U.S. generally accepted accounting principles ("GAAP"), avoid

[29] As proposed, the term "commitment" would now mean "a contractual arrangement under which a [banking organization] and an obligor agree to terms applicable to one or more future extensions of credit, purchases of assets, or issuances of credit substitutes by the [banking organization], whether or not such arrangement is unconditionally cancelable."

[30] Capital; Risk-Based Capital Guidelines, 54 Fed. Reg. 4,186, 4,204-4,205 and 4,217 (Jan. 27, 1989).

[31] The term "unconditionally cancelable" (with respect to a commitment) has also been part of the risk-based capital framework since 1989. *Id.* at 4,205 and 4,217.

[32] The proposal would lead to incongruities with other prudential requirements that the Agencies intended to be aligned in this regard. For example, the agencies' liquidity coverage ratio and net stable funding ratio rules define a credit facility as "a *legally binding agreement* to extend funds if requested at a future date, including a general working capital facility such as a revolving credit facility for general corporate or working capital purposes." *See, e.g.*, 12 CFR 50.3. The proposed definition would also be at odds with the Board's single-counterparty credit limits framework (12 CFR Part 252, Subpart H), which expressly excludes uncommitted lines of credit from the definition of "credit transaction." *See* 12 CFR 252.71(h)(1).

unnecessary interpretive uncertainty inherent in the proposed definitions, and ensure that risk-based capital requirements remain aligned with actual credit risk borne by a banking organization.

Departure from a Legally Grounded Standard Creates Interpretive Risk

Under the current framework, a commitment is grounded in an objective standard—a legally binding obligation to fund—that allows a banking organization to clearly delineate when credit risk arises. The proposed definition, however, would cover any “contractual arrangement” that sets forth terms under which future extensions of credit *may* occur, even where the banking organization retains full discretion to refuse funding.

Without anchoring the definition to a legally binding obligation to fund, it becomes unclear:

- Under what circumstances a banking organization is deemed to have an exposure subject to regulatory capital requirements and the amount of that exposure;

- How a banking organization should determine whether expected funding creates a capital requirement; and

- How supervisors would consistently evaluate compliance across banking organizations.

This lack of a clear anchor to a legally binding obligation to fund creates significant interpretive risk and invites inconsistent application across banking organizations, portfolios, and supervisory examinations.

Unclear Expectations Around Non-Binding Arrangements

By decoupling commitments from legally binding funding obligations, the Proposal implicitly relies on subjective concepts such as customer expectations, relationship considerations, or perceived willingness to fund. These concepts are inherently difficult to define, measure, or apply consistently and are ill-suited for determining regulatory capital requirements.

In practice, a banking organization may have any number of arrangements that outline potential future transactions without any obligation to proceed. Determining when such arrangements rise to the level of a “commitment” for capital purposes—despite the ability to decline funding at any time—introduces uncertainty that is incompatible with the capital framework.

Unnecessary Deviation from GAAP Treatment

The proposed definition also deviates from long-established accounting principles. Under GAAP, commitments are recognized only when there is a legally enforceable obligation.[33] This alignment between accounting recognition and regulatory capital treatment has historically promoted clarity, consistency, and operational feasibility.

Deviating from the GAAP-aligned definition of a commitment would:

- Require banking organizations to maintain parallel, non-aligned regulatory and accounting taxonomies;

- Increase operational complexity and compliance burden for banking organizations and supervisors; and

- Heighten the risk of inconsistent interpretation across banking organizations and regulators.

IV. Credit Conversion Factor ("CCF") for Unconditionally Cancellable Commitments Related to Transactor Accounts

The risk-based regulatory capital framework uses CCFs to translate off-balance sheet exposures, like commitments, into potential on-balance sheet exposure amounts subject to risk weighting. The Proposal would introduce a 10 percent CCF for unconditionally cancelable commitments to address concerns that, in practice, banking organizations may not be willing to curtail such commitments and "may extend credit or provide funding to support the viability of obligors to which the banking organization has significant ongoing exposure, even when obligors are under economic stress."[34]

We believe, however, that these concerns are less relevant for exposures to credit card transactor accounts, which primarily use credit cards for payments and liquidity management, rather than for revolving borrowing, so there is a lower likelihood that transactors' unused commitments convert into drawn balances under stress compared to revolvers. The Agencies should revise the Proposal to apply a lower CCF, no greater than 5 percent, for unconditionally cancellable commitments associated with transactor accounts until the borrower exhibits behavior inconsistent with substantial repayment

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[33] Accounting Standards Codification 326-20-20 Financial Instruments – Credit Losses ("Loan commitments are legally binding commitments to extend credit to a counterparty under certain prespecified terms and conditions. They have fixed expiration dates and may either be fixed-rate or variable-rate.").

[34] *See* Proposal at 14,978.

outside of *de minimis* amounts. This treatment would better align regulatory capital requirements for certain retail and small business exposures with observed borrower behavior, preserve the integrity of the transactor classification, and help ensure that capital increases only when risk has demonstrably changed.

Demonstrated Repayment Performance Exceeds Regulatory Re-Performance Standards

By definition, transactor borrowers exhibit a sustained history of repaying balances in full each billing cycle and do not engage in revolving behavior. Under the Proposal, an exposure must demonstrate at least twelve months of full repayment behavior to qualify as a transactor account—twice the duration of the re-performance period typically used elsewhere in the regulatory framework to evidence credit improvement or cure delinquency.

This extended track record provides strong empirical evidence that:

- The borrower does not rely on the credit line for liquidity; and

- The likelihood of balance persistence or material draw at default is minimal.

Applying a CCF higher than 5 percent to these exposures would disregard observed borrower behavior and conflicts with the core principle that capital requirements should be aligned with realized credit risk rather than the hypothetical availability of credit.

Limited Draw Risk Prior to Behavioral Migration

For transactor accounts, the primary source of credit risk is behavioral migration, not unexpected line utilization. If a borrower ceases to repay in full or a substantial amount of the balance, that change in behavior is immediately observable and results in reclassification to a regulatory retail revolving exposure.[35]

Upon migration:

- The applicable risk weight increases materially (from 45 to 75 percent); and

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[35] The Federal Financial Institutions Examination Council's *Uniform Retail Credit Classification and Account Management Policy* requires that open-end retail loans that become past due 180 cumulative days from the contractual due date should be classified Loss and charged off. 65 Fed. Reg. 36,903, 36,904 (June 12, 2000). This would align with the increase capital charges as the loan migrates based on its performance.

- The application of an increased CCF becomes more appropriate, as the borrower has demonstrated a willingness to carry higher balances and potentially draw on available credit.

Accordingly, the framework already contains a natural and timely risk-escalation mechanism that appropriately captures increased credit risk once it becomes evident, making a higher CCF amount unnecessary.

Inconsistency with Risk Sensitivity and Double Counting of Risk

Applying an unduly high CCF to transactor accounts would:

- Penalize borrowers before any evidence of draw risk has emerged; and

- Result in effective double counting, as utilization risk is captured again through higher risk weights once exposures migrate out of transactor status.

This approach weakens the risk sensitivity of the framework and reduces alignment between regulatory capital requirements and the actual timing of loss emergence. A likely result of the proposed CCF would be an additional cost for banking organizations to provide a credit card or similar line of credit to a consumer or a small business. The proposed CCF could, therefore, have the unintended consequence of driving banking organizations to cancel or significantly reduce credit lines for consumers and small business customers, thereby reducing access to credit. Reductions in credit availability may negatively impact consumer and small business customer credit scores and contribute to higher overall borrowing costs for consumers and small businesses, both within and outside of the banking sector.

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U.S. Bank appreciates the opportunity to comment on the Proposal. If you have any questions, please contact the undersigned at John.Stern@USBank.com.

Sincerely,

John C. Stern
Vice Chair and Chief Financial Officer

Appendix

Scope of Application for Credit Valuation Adjustment ("CVA") Capital Requirements

The Proposal would apply CVA capital requirements to any Category I or II banking organization regardless of the amount of the organization's notional over-the-counter ("OTC") derivatives exposure. For other banking organizations with significant trading activity, these requirements would apply only if the banking organization's notional OTC derivatives exposure exceeds a $1 trillion threshold, which historically has been a key determinant of material CVA risk.[36]

The Agencies should limit application of CVA capital requirements only to banking organizations with material derivatives exposure by retaining or incorporating a notional or exposure-based threshold, such as the $1 trillion OTC derivatives benchmark. This would ensure that CVA capital requirements remain appropriately risk-based, aligned with actual risk drivers, and avoid imposing unnecessary requirements on banking organizations with limited derivatives activity.

CVA risk is driven by counterparty credit exposure arising from large volumes of derivatives, not by a banking organization's asset size or category classification alone. A Category II banking organization does not, in and of itself, introduce material CVA risk. Rather, material CVA risk arises when a firm maintains substantial derivatives activity, particularly in uncleared OTC markets.

Applying CVA capital requirements solely based on a banking organization's category, risks capturing firms with relatively modest derivatives activity, while ignoring the long-standing principle that CVA should be risk-based and proportional to actual counterparty exposure. Revising the Proposal to apply CVA capital requirements determined via an appropriate, risk-based threshold—such as at least $1 trillion in OTC notional derivative exposure—would better align CVA capital requirements to those banking organizations where CVA risk is economically meaningful and would maintain consistency with the risk-sensitive objectives of the Basel framework.

Accounting Re-Statements as Operational Risk Loss Events

The Agencies should clarify that accounting restatements, in and of themselves, should not be treated as operational risk loss events unless they are directly associated with a distinct, realized economic loss that is not otherwise captured in the framework. In addition, the Agencies should ensure that where a restatement is linked to an underlying

[36] The Agencies estimate that banks meeting this $1 trillion threshold account for over 98 percent of all OTC derivative exposures held by U.S. banks as of June 2025. *See* Proposal at 14,957.

operational risk event (such as fraud), the framework avoids double counting by recognizing only the primary loss event for capital purposes. These changes would better align operational risk capital with actual economic losses and preserve the integrity and risk sensitivity of the framework.

Economic Loss

The Proposal would treat certain accounting restatements as operational risk loss events for purposes of calculating operational risk capital. While restatements may reflect control deficiencies or errors in financial reporting, they do not, by themselves, represent realized economic losses. In many cases, restatements are corrective in nature and serve to improve transparency and accuracy rather than to reflect a loss of capital or resources. Including restatements as operational loss events therefore introduces a conceptual inconsistency within the operational risk framework, which is intended to measure exposure to actual loss events arising from failed processes, systems, or external events. Treating restatements as losses would risk overstating operational risk capital requirements by incorporating events that do not involve a direct financial outflow.

Double Counting with Other Operational Loss Events

In addition, the Proposal may result in double counting of operational risk in cases where a restatement is associated with an underlying loss event. For example, where a fraud event results in a realized financial loss that is already captured in the operational risk framework, and a subsequent accounting restatement is required to correct previously reported financials, the framework could record both the original loss event and the restatement as separate operational loss events. This outcome would unnecessarily inflate capital requirements without reflecting an incremental increase in economic risk.

Such double counting would be inconsistent with the objective of risk-sensitive capital requirements and could create incentives that are misaligned with transparency, as banking organizations should not face additional capital consequences solely for appropriately correcting prior financial reporting.

<u>Bank Risk Weight / Foreign Bank Definition</u>

The Agencies should improve the calibration of bank exposure risk weights and simplify the requirements, define short-term exposures based on original maturity of three months or less without limiting eligibility by counterparty type or transaction purpose, and adopt the Basel Committee's definition of a "bank". These changes would better align the framework with Basel standards, better reflect actual credit risk, and promote consistency across jurisdictions and institutions.

Interbank Exposure Risk Weight Calibration and Competitive Implications

If the preferential risk weight within the Grade "A" category is retained, it should be calibrated at a 20 percent risk weight, not 30 percent. This would align with the Basel Committee external ratings-based framework, where AAA–AA exposures receive a 20 percent risk weight, and avoids creating an outcome in which foreign banks operating under external ratings approaches can provide funding more cheaply than U.S. institutions solely due to differences in regulatory design.

The Grade "A" category should be simplified by eliminating the lack of an adverse audit requirement and recalibrated to an approximately 30 percent risk weight, consistent with the treatment of A-rated exposures under external ratings. While fewer rating buckets will necessarily result in larger step changes between grades, maintaining comparable calibration ranges preserves consistency across approaches and prevents divergence in capital outcomes.

It is important that the final rule avoids creating structural funding advantages for foreign banks relative to U.S. institutions. Risk weight differentials should reflect underlying credit risk, not differences in methodology, and calibration should therefore remain closely aligned with the Basel Committee standard to ensure competitive equity.

Use of the Basel Committee Definition of "Short-Term" Exposures

Short-term maturity is the key driver of reduced credit risk, given the limited exposure horizon, frequent rollovers, and ongoing monitoring inherent in interbank markets. The Basel Committee framework permits preferential risk weights for short-term interbank exposures, generally defined by reference to original maturity rather than purpose or counterparty geography.[37] Restricting the favorable risk weight to trade-related claims or foreign counterparties introduces unnecessary complexity and departs from the risk-based logic of the Basel Committee framework. The same low-risk characteristics apply equally to short-term exposures to domestic banks.

The Agencies should rely on the Basel Committee definition of short-term exposures—typically those with an original maturity of three months or less—without restricting eligibility to foreign banks or trade-related transactions.

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[37] Basel Committee on Banking Supervision, CRE 20.19 ("Exposures to banks with an original maturity of three months or less, as well as exposures to banks that arise from the movement of goods across national borders with an original maturity of six months or less can be assigned a risk weight that correspond to the risk weights for short term exposures in Table 6.") (footnotes omitted).

Alignment with the Basel Committee Definition of a Bank

Under the Basel framework, a bank is defined as:

> "Any financial institution that is licensed to take deposits from the public and is subject to appropriate prudential standards and a sufficient level of supervision."

Leveraging this language for purposes of the "foreign bank" definition under the regulatory capital rules would provide a clearer, principles-based standard and would disconnect the risk-based capital rules from the definition of "foreign bank" under the Board's Regulation K, which was first adopted decades ago and for a different purpose.[38] The Regulation K definition introduces an ambiguous and undefined concept that a foreign bank must receive "deposits to a *substantial extent* in the regular course of its business".[39] To ensure consistency with international standards and promote clarity in application, the Agencies should explicitly adopt the Basel Committee definition of a "bank" for purposes of determining eligibility for bank risk weights. Aligning the definition as recommended would also promote consistent treatment of similarly regulated institutions and reduce interpretive uncertainty for banking organizations engaged in cross-bank exposures.

[38] International Banking Operations; Final Rule Revision, 44 Fed. Reg. 36,005 (June 20, 1979).

[39] 12 CFR 211.2(j).