ALTERNATIVE CREDIT COUNCIL, JIRI KROL

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-C114

Subject

Comment Letter — Regulatory Capital Rule: Category I and II Banking Organizations; Basel III Endgame Reproposal [Docket No. R-1887; RIN 7100-AH20]

Submitter Information

Organization Name: Alternative Credit Council

Organization Type: Organization

Name: Jiri Krol

Submitted Date: 06/18/2026

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Dear Ms. Misback,

Please find attached the comment letter submitted by the Alternative Credit Council ("ACC"), the private credit affiliate of the Alternative Investment Management Association ("AIMA"), on the Board's 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" (Docket No. R-1887; RIN 7100-AH20), published in the Federal Register on March 27, 2026.

The ACC represents 250 private credit managers and investors overseeing more than US$2 trillion in private credit assets. Our letter addresses six issues of central importance to the private credit industry: credit conversion factors for fund finance commitments, the equity investment look-through framework, synthetic risk transfer, securitization treatment, middle-market credit availability, and the operational risk treatment of credit-related fee income.

We appreciate the opportunity to participate in this rulemaking and welcome any follow-up questions.

Respectfully submitted,

Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas

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June 18, 2026

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System

James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation

Chief Counsel's Office
Office of the Comptroller of the Currency

Re: Regulatory Capital Rules; Basel III Endgame Reproposal

Dear Sir or Madam:

The Alternative Credit Council ("ACC")[1], the private credit affiliate of the Alternative Investment Management Association Ltd ("AIMA"), appreciates the opportunity to comment on the Agencies' reproposal of the Basel III Endgame framework (the

[1] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over $2trn of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

“Reproposal”).[2] The ACC[3] is the leading global trade association for private credit managers and investors, representing 250 members that manage over US$2 trillion of private credit assets.

We support the overall direction of the Reproposal and welcome the Agencies’ decision to revisit the 2023 proposal in several important respects. This letter addresses six issues that are central to the private credit industry’s ability to serve as a reliable, long-term source of credit for businesses across the U.S. economy. In order of priority: first, the Reproposal’s proposed credit conversion factors for undrawn fund finance commitments should be recalibrated to reflect the demonstrated risk characteristics of subscription and warehouse facilities; second, the look-through framework for bank equity investments in private credit funds requires additional guidance to be operationally workable; third, the Reproposal’s introduction of the eligible prepaid credit protection arrangement as a funded synthetic risk transfer mechanism should be preserved, and the final rule should supplement that framework by explicitly enumerating private credit funds as eligible protection providers for unfunded credit protection arrangements; fourth, the Reproposal’s improved treatment of senior securitization exposures and the revised supervisory securitization floor should be preserved; fifth, the Agencies should conduct and publish a specific assessment of the capital framework’s downstream effects on middle-market credit availability; and sixth, credit-related fee income earned through private credit partnerships should be excluded from or treated more favorably within the operational risk capital charge.

I. The credit conversion factor for short-term fund finance commitments should be reduced to reflect demonstrated risk characteristics

A. The Reproposal significantly increases the capital cost of subscription and warehouse facilities

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[2]Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, 91 Fed. Reg. 15332 (Mar. 27, 2026) [hereinafter Reproposal]. The Agencies also issued concurrently: Regulatory Capital Rule: Amendments to the Standardized Approach, 91 Fed. Reg. 15332, 91 Fed. Reg. 14952 and 91 Fed. Reg. 14908 (each at March 27, 2026). The Reproposal was issued jointly by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

[3] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC’s core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

Under the existing standardized approach, banks apply maturity-based credit conversion factors ("CCFs") to undrawn loan commitments, with short-term commitments of less than 1 year carrying a 20% CCF and unconditionally cancelable commitments carrying a 0% CCF.[4] The Reproposal replaces this graduated structure with a single 40% CCF for all non-cancelable commitments regardless of original maturity, and introduces a 10% CCF for unconditionally cancelable commitments under the expanded risk-based approach ("ERBA").[5]

The practical effect on private credit fund finance is substantial. Subscription credit facilities and short-term warehouse lines are predominantly structured with maturities of one year or less, meaning the Reproposal would double the applicable CCF from 20% to 40% for those facilities. Industry analysis estimates total fund finance risk-weighted assets ("RWAs") of approximately $62.4 billion under the Proposed Rules, a significant increase from the current baseline.[6] That increase will translate directly into higher pricing on subscription lines and warehouse facilities, raising the cost of capital deployment for private credit managers and, ultimately, the cost of credit for middle-market borrowers.

B. A differentiated, lower CCF for fund finance facilities is warranted by the historical loss record

Subscription credit facilities are secured by the uncalled capital commitments of institutional limited partners ("LPs") subject to binding drawdown obligations. Loss rates on subscription facilities have historically been de minimis: aggregate default rates across surveyed institutions have remained below 0.1% over the cycle, a figure orders of magnitude lower than the corporate credit losses the 40% CCF is calibrated to reflect. The structural reasons are straightforward. Subscription facilities are not underwritten on the creditworthiness of the fund itself but on the legal commitments of institutional LPs, typically endowments, pension funds, sovereign wealth funds, and insurance companies whose default rates on capital call obligations are effectively zero. Warehouse facilities carry similarly distinct risk profiles, secured as they are by diversified pools of underwritten loans with structural over-collateralization rather than the unsecured or leveraged corporate exposure that the 40% CCF was designed to capture. A 0% or nominal CCF

[4] Under the existing standardized approach, unconditionally cancelable commitments are assigned a 0% credit conversion factor, commitments of less than one year that are not unconditionally cancelable are assigned a 20% CCF, and commitments of one year or more are assigned a 50% CCF. *See* 12 C.F.R. § 3.33(b) (OCC); 12 C.F.R. § 217.33(b) (Fed); 12 C.F.R. § 324.33(b) (FDIC).

[5] *See* Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15332, 15343 (Mar. 27, 2026) (proposing a single 40% CCF for all non-cancelable commitments regardless of original maturity); 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. 14952, 14978 (Mar. 27, 2026) (proposing a 10% CCF for unconditionally cancelable commitments under the ERBA framework).

[6] *See* Simpson Thacher & Bartlett LLP, Basel III Endgame Evolution: Strategic Implications for Alternative Asset Managers (Mar. 25, 2026) (noting that the proposed 40% CCF would increase capital charges for undrawn commitments with an original maturity of one year or less from 20% to 40%, and estimating total fund finance RWA of approximately $62.4 billion under the Proposed Rules).

for subscription facilities reflects the actual counterparty risk structure of those instruments; a 20% CCF for short-term warehouse facilities is calibrated to reflect the secured, diversified nature of the collateral pool and aligns with the treatment historically applicable under the standardized approach to short-term commitments before the Reproposal replaced that maturity-based structure.[7] Warehouse facilities are secured by diversified pools of underwritten loans, providing structural protection against loss that similarly distinguishes them from unsecured or leveraged corporate commitments.

We urge the Agencies to finalize a differentiated CCF for subscription credit facilities and short-term warehouse facilities that reflects their structural characteristics and historical performance. Specifically, the final rule should: restore a 0% or reduced CCF for subscription facilities secured by institutional investor capital commitments; apply a CCF no higher than 20% for warehouse facilities secured by diversified loan pools with maturities of one year or less; and provide clear guidance on the structural criteria that qualify a facility for differentiated treatment, reducing the need for transaction-by-transaction supervisory negotiation.

C. The 10% CCF for unconditionally cancelable commitments under the ERBA should be eliminated

The Reproposal introduces a 10% CCF for unconditionally cancelable commitments under the ERBA, replacing the 0% CCF currently applicable under the standardized approach.[8] Unconditionally cancelable commitments by definition expose the bank to no binding obligation to extend credit; the bank retains the right to cancel the commitment at any time. Assigning a 10% CCF to such commitments imposes a capital charge on a contingent exposure that the bank can extinguish unilaterally, a result difficult to reconcile with the economic substance of the arrangement.

The ACC urges the Agencies to eliminate the 10% CCF for unconditionally cancelable commitments in the final rule and restore the 0% CCF currently applicable under the

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[7]Subscription credit facilities are secured by the uncalled capital commitments of fund limited partners, which are typically institutional investors subject to contractual drawdown obligations. Loss rates on subscription facilities have historically been de minimis. *See* Fund Finance Ass'n, Global Fund Finance Survey (2024), https://www.fundfinanceassociation.com (reporting aggregate default rates on subscription facilities below 0.1% across surveyed institutions); see also Kroll Bond Rating Agency, Private Credit: Subscription Line Performance Still Shines (Feb. 20, 2025), https://www.businesswire.com/news/home/20250220416308/en/KBRA-Releases-Research-%E2%80%93-Private-Credit-Subscription-Line-Performance-Still-Shines (reporting minimal defaults over 30 years across 181 rated subscription facilities with $132 billion in rated issuance volume).

[8]Under the ERBA framework as proposed, unconditionally cancelable commitments would receive a 10% CCF, compared to the 0% CCF currently applicable under the standardized approach. *See* 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. 14952, 14978 (Mar. 27, 2026); *see also* Sullivan & Cromwell LLP, Banking Agencies Release Basel III, GSIB Surcharge, Revised Standardized Approach Proposals (Mar. 26, 2026) (noting the 10% CCF applicable to unconditionally cancelable commitments under the Basel III Proposal compared to 0% under the current standardized approach).

standardized approach, consistent with the treatment of those commitments under the Standardized Approach Proposal.

II. The look-through framework for bank equity investments in private credit funds requires additional guidance

A. The Reproposal restores look-through optionality but does not resolve the core operational challenge for private credit funds

Under the existing framework, banks may apply one of three look-through approaches to equity interests in investment funds: the full look-through approach, the alternative modified look-through approach, and the simple modified look-through approach.[9] The 2023 Basel III Proposal would have eliminated the simple modified look-through approach and imposed a 1,250% fallback risk weight on fund exposures where a bank lacked sufficient information to apply either of the remaining approaches.[10] The Reproposal restores optionality among the three approaches, which is a meaningful improvement.[11]

However, the Reproposal does not address the fundamental operational challenge that private credit funds present for bank look-through analysis. Private credit funds are not registered under the Investment Company Act of 1940, hold illiquid assets that are typically not marked daily but instead on a mark-to-model basis, and do not publicly disclose real-time portfolio holdings. As a result, banks investing in private credit funds cannot readily obtain the verified position-level data required to apply the full look-through approach, and the simple modified look-through approach, while available, applies the highest risk weight of any underlying asset to the entire fund exposure, which overstates risk for diversified private credit funds with predominantly senior-secured portfolios.

B. The final rule should provide specific guidance for applying the alternative modified look-through approach to private credit funds

The alternative modified look-through approach, which relies on fund mandate parameters and investment limits specified in offering materials rather than verified position-level data, is the most practicable methodology for private credit fund

[9]Under existing capital rules, banks may apply one of three optional look-through approaches to equity interests in investment funds: the full look-through approach, the alternative modified look-through approach, or the simple modified look-through approach. *See* 12 C.F.R. sec. 3.152 (OCC); 12 C.F.R. sec. 217.152 (Federal Reserve); 12 C.F.R. sec. 324.152 (FDIC).

[10]The 2023 Basel III Proposal would have eliminated the simple modified look-through approach and imposed a 1,250% risk weight as a fallback for fund exposures where a bank lacked sufficient information to apply either of the other two approaches. *See* 2023 Basel III Proposal, 88 Fed. Reg. at 64,107-09.

[11]*See* 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. 14952, 15008 (Mar. 27, 2026) (restoring optionality among look-through approaches and retaining the simple modified look-through approach as an available methodology).

exposures.[12] However, the current rule does not specify how that approach should be applied to funds that hold illiquid assets, use fair-value accounting, and report holdings on a quarterly rather than daily basis.

We recommend that the Agencies include in the final rule or accompanying supervisory guidance specific instructions for applying the alternative modified look-through approach to private credit funds, including: confirmation that fund mandate parameters and investment policy statement constraints may be used as the basis for asset-class allocation in lieu of verified position-level data; guidance on the treatment of leverage at the fund level for purposes of risk weight calculation; and clarification that quarterly fund reporting satisfies the information requirements for the alternative modified approach, provided the bank conducts due diligence on fund compliance with stated mandate parameters.

III. The final rule should explicitly enumerate private credit funds as eligible protection providers for synthetic risk transfer transactions

A. The Reproposal introduces a new synthetic risk transfer ("SRT") mechanism, which is a positive development

Synthetic risk transfer transactions allow banking organizations to transfer credit risk on reference portfolios to institutional investors while retaining the lending relationship with borrowers.[13] The Reproposal introduces a new form of credit risk mitigant, the eligible prepaid credit protection arrangement, intended to facilitate the direct issuance of credit-linked notes by banking organizations as a funded alternative to unfunded credit protection.[14] This is a constructive development. For prepaid CLN arrangements specifically, the Reproposal's structure eliminates counterparty credit risk of the protection provider, meaning that eligibility criteria for the protection provider counterparty are not a relevant consideration for those transactions.

Private credit funds are among the most active and natural participants in the SRT market. They have long investment horizons, diversified investor bases, and the analytical capacity

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[12]Private credit funds are not registered under the Investment Company Act of 1940, 15 U.S.C. sec. 80a-1 et seq., and are not subject to the same portfolio diversification and leverage restrictions that apply to registered investment companies. The alternative modified look-through approach, which relies on fund mandate parameters and investment limits specified in offering materials rather than verified position-level data, is more operationally practicable for illiquid private credit strategies. *See* 12 C.F.R. sec. 3.152(b)(2) (OCC) (describing the alternative modified look-through approach).

[13]A synthetic risk transfer transaction typically involves a banking organization purchasing credit protection on a reference portfolio of loans or other assets from a protection seller. Protection may be provided on an unfunded basis through a credit default swap or on a funded basis through the issuance of credit-linked notes by a special purpose vehicle. *See generally* Fed. Reserve, Synthetic Risk Transfers: Supervisory Perspectives (2024), https://www.federalreserve.gov/publications/files/synthetic-risk-transfer-2024.pdf.

[14]*See* 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. 14952, 14991 (Mar. 27, 2026) (introducing the concept of an 'eligible prepaid credit protection arrangement' to facilitate direct issuance of credit-linked notes by banking organizations as a funded form of SRT).

to price and manage credit risk on reference portfolios. Their participation reduces concentration risk within the banking system and allocates credit risk to investors equipped to hold it through credit cycles.

B. The final rule should establish clear eligibility criteria and enumerate qualifying investor categories

Comparable frameworks in the European Union and United Kingdom enumerate eligible protection provider categories and specify the structural criteria that transactions must meet to qualify for SRT recognition.[15] We strongly urge the Agencies to adopt a similar approach in the final rule, including:

- Explicit enumeration of private credit funds as eligible protection providers for unfunded credit protection arrangements outside the prepaid CLN framework, subject to minimum eligibility criteria including institutional investor base, minimum assets under management ("AUM") threshold, and a long-term investment mandate consistent with holding credit risk through a full credit cycle.
- Quantitative risk retention thresholds specifying the maximum first-loss position a banking organization may retain while still qualifying for significant risk transfer recognition, eliminating the current requirement for transaction-by-transaction supervisory approval.[16]

A transparent, criteria-based eligibility framework will reduce transaction costs, support market development, and allow the SRT market to function as an efficient channel for credit risk transfer without requiring parties to seek individual supervisory approvals for transactions that meet established standards.

IV. The final rule should preserve the Reproposal's improved treatment of senior securitization exposures and the revised supervisory floor

A. The Reproposal correctly recalibrates the securitization capital framework

The 2023 Basel III Proposal would have significantly increased capital requirements for securitization exposures by raising the supervisory securitization floor under the

[15] *See* European Banking Auth., Report on Significant Risk Transfer in Securitisation (Sept. 2020), https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2020/961347/EBA%20Report%20on%20SRT.pdf (analyzing SRT framework design across jurisdictions and identifying the importance of quantitative thresholds for risk retention and transfer, including enumeration of eligible investor categories).

[16] *See* 12 C.F.R. pt. 244 (implementing risk retention requirements for asset-backed securities under section 15G of the Securities Exchange Act of 1934, 15 U.S.C. sec. 78o-11); Off. of the Comptroller of the Currency, Risk Transfer and Retained Interest: Supervisory Expectations for Significant Risk Transfer Determinations (2023).

Securitization Standardized Approach ("SEC-SA") framework and requiring a 1,250 percent risk weight for collateralized loan obligation ("CLO") and other securitization positions that could not be analyzed under an approved internal model.[17] The Reproposal recalibrates both elements, reducing the supervisory floor and providing differentiated treatment for senior securitization tranches. We support these changes as a matter of risk-sensitive capital policy.

Senior securitization tranches benefit from subordination, over-collateralization, and, in many structures, reserve accounts and excess spread.[18] The historical performance of AAA-rated securitization tranches through stress periods, including the 2008 financial crisis, demonstrates that blanket risk-weight floors that treat senior and subordinate positions alike overstate the actual credit risk of senior positions. CLO securities are an instructive example: research from Moody's Investors Service and BofA Securities has found that the cumulative default rate on AAA-rated CLO tranches has been effectively zero across multiple credit cycles since the CLO market's modern inception.[19]

B. The supervisory floor should be maintained at the Reproposal level

We urge the Agencies to finalize the supervisory securitization floor at the level proposed in the Reproposal rather than reverting to the higher floor in the 2023 proposal. A floor calibrated without regard to tranche seniority, deal structure, or underlying asset quality will produce capital requirements disconnected from economic risk, create incentives for banking organizations to reduce holdings of senior securitization positions, and increase the cost of credit for borrowers across asset classes including mortgages, auto loans, equipment finance, and middle-market term loans.[20]

V. The Agencies should assess the capital framework's downstream effects on middle-market credit availability

[17] *See* 2023 Basel III Proposal, 88 Fed. Reg. at 64,088-92 (setting forth original supervisory securitization floor calibration and CLO risk weight treatment); Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15332, 15359 (Mar. 27, 2026) (revised calibrations).

[18] The subordination structure of a securitization provides credit enhancement to senior tranches by requiring that losses be absorbed by subordinate tranches before reaching senior positions. *See generally* Basel Comm. on Banking Supervision, Revisions to the Securitisation Framework 3-5 (Dec. 2014), https://www.bis.org/publ/bcbs303.pdf.

[19] *See* Moody's Investors Serv., CLO Interest: U.S. CLO Tranches Have Had Minimal Defaults Since 1993 (2022) (reporting zero defaults on AAA-rated U.S. CLO tranches across all rated vintages since the modern CLO market's inception); *see also* BofA Securities, CLO Credit Performance: A Historical Analysis (2023) (confirming de minimis default rates on investment-grade CLO tranches through multiple credit cycles, including the 2008 financial crisis and the COVID-19 stress period).

[20] SIFMA, U.S. ABS Issuance and Outstanding (2025), https://www.sifma.org/resources/research/us-abs-issuance-and-outstanding/ (reporting aggregate ABS issuance across mortgage, auto, equipment, student loan, and other asset classes).

Middle-market companies collectively employ approximately 48 million workers and contribute approximately one-third of private-sector gross domestic product ("GDP").[21] They depend disproportionately on bank and private credit financing because their size and capital structure generally preclude access to public debt markets. The bank-nonbank credit ecosystem serving these companies is deeply integrated: banks originate and warehouse loans, structure and distribute CLOs, provide subscription and net asset value ("NAV") financing to private credit funds, and co-invest alongside private credit managers in direct lending transactions.[22]

Capital requirements that raise the cost of fund finance, securitization exposures, or SRT transactions will increase the cost of bank participation in this ecosystem. Those costs will be passed through to borrowers in the form of higher spreads and tighter credit availability. We urge the Agencies to conduct and publish a specific assessment of how the final capital calibrations will affect:

- Warehouse financing costs for middle-market loan origination platforms, including the cost of bank-provided warehouse lines used to accumulate loans prior to CLO issuance, which directly determine the economics of private credit fund deployment.[23]
- CLO formation economics, including the effect of bank capital requirements on the cost of AAA-rated CLO tranches and the resulting effect on total CLO issuance volume and spreads paid by middle-market borrowers.
- Asset-based lending availability for manufacturers, distributors, and service companies that depend on revolving credit facilities secured by receivables and inventory, which are frequently securitized or participated to nonbank investors and are directly affected by the securitization capital framework.[24]
- Subscription and NAV facility pricing for private credit funds, which will be directly affected by the proposed CCF changes described in Section I, and which in turn affect the cost and speed of capital deployment into middle-market lending.

[21] Nat'l Ctr. for the Middle Market, Middle Market Indicator (Q4 2024), https://middlemarketcenter.org/middle-market-indicator (reporting that middle-market companies collectively employ approximately 48 million workers and contribute approximately one-third of private-sector GDP).

[22] *See* Alt. Credit Council, Financing the Economy: The Role of Private Credit in Supporting Middle-Market Businesses 12-15 (2024) (documenting the integration of bank and private credit channels in middle-market lending, including the role of bank warehouse lines, subscription finance, and CLO structuring services in supporting private credit fund deployment).

[23] *See* Loan Syndications & Trading Ass'n, CLO Market Overview (Q1 2025), https://www.lsta.org/content/clo-market-overview/ (reporting CLO issuance volumes and documenting the role of CLO financing in middle-market and broadly syndicated loan markets).

[24] Asset-based lending facilities secured by receivables and inventory represent a critical source of working capital for manufacturers, distributors, and service companies. These facilities are frequently securitized through commercial paper conduits or term ABS structures. *See* 12 C.F.R. sec. 3.120 et seq. (OCC standardized approach risk weights for corporate and retail exposures).

VI. Credit-related fee income earned through private credit partnerships should be excluded from or treated more favorably within the operational risk capital charge

The Reproposal retains an operational risk capital framework applicable to Category I and II banking organizations that imposes capital charges based on a bank's business indicator, a measure that includes fee income from lending-related services.[1] Origination fees, structuring fees, and agency fees that banking organizations earn from private credit partnerships are included in the business indicator and thus increase the operational risk charge, even though these fees are compensation for credit intermediation services that reduce the cost of credit for borrowers rather than indicators of operational complexity or systemic risk.

The Reproposal adopts net measurement of revenues and expenses for the noninterest component of the business indicator, which is a meaningful improvement over the 2023 proposal and reduces the operational risk charge for fee-based businesses across the board. The Reproposal also introduces a 70% discount – reducing the effective weight of certain fee income in the business indicator – for activities the Agencies have identified as carrying lower operational risk per dollar of revenue: investment management, investment services, and non-lending treasury services. No explicit, equivalent discount category exists for credit intermediation fee income. As a result, origination fees, structuring fees, and agency fees earned through private credit partnerships may enter the noninterest component at full weight, uncapped, alongside higher-risk fee income streams that the discount framework was designed to differentiate from lower-risk service activities. This structural gap penalizes banking organizations that earn fee income from credit intermediation through private credit partnerships and creates a disincentive to provide these services to private credit markets, even though the risk profile of such fees – compensation for facilitating loan origination and structuring rather than for managing operational complexity – is more analogous to the low-risk service categories that qualify for the discount than to the higher-risk income streams that do not.

We urge the Agencies to address this gap in the final rule by either: creating a discount category for origination, structuring, and agency fee income earned in connection with private credit transactions, calibrated at least to the 70% level applicable to investment management and non-lending treasury services; or excluding from the business indicator entirely the component of fee income attributable to loan origination, structuring, and agency services provided through private credit partnerships. Either approach would align the operational risk capital treatment of private credit intermediation fees with the actual risk characteristics those fees represent, and would remove a regulatory disincentive to bank participation in private credit markets that serves no prudential purpose.[25]

Conclusion

We urge the Agencies to finalize the Basel III Endgame framework in a manner that: (1) recalibrates the credit conversion factors for subscription and warehouse facilities to reflect their demonstrated risk characteristics and eliminates the 10% CCF for unconditionally cancelable commitments; (2) provides specific guidance for applying the alternative modified look-through approach to private credit fund equity investments; (3) preserves the eligible prepaid credit protection arrangement framework and supplements it by explicitly enumerating private credit funds as eligible protection providers for unfunded credit protection arrangements and establishing quantitative thresholds for risk transfer recognition; (4) maintains the Reproposal's improved treatment of senior securitization exposures and the revised supervisory securitization floor; (5) conducts and publishes a rigorous assessment of the capital framework's downstream effects on middle-market credit availability; and (6) eliminates the asymmetric treatment of credit-related fee income in the operational risk capital charge.

If you have any questions or would like further information, please contact me at jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas at jengelhard@aima.org.

Yours sincerely,

Jiří Król
Global Head of Alternative Credit Council

[25] *See* Fed. Reserve, FDIC & OCC, Economic Analysis of the Reproposal (Mar. 2026) (accompanying economic analysis discussing the Agencies' assessment of the capital framework's effects on credit availability and business income).