

CHEYNE CAPITAL, FRANK BENHAMOU

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-C118

Submitter Information

Organization Name: Cheyne Capital

Organization Type: Company

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Submitted Date: 06/22/2026

Please find attached the comment letter of Cheyne Capital Management (UK) LLP on the Regulatory Capital Rule: Category I and II Banking Organizations (ERBA Proposal) and the Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets (Standardized Proposal).

Our comments address the eligible guarantor definition (Question 22 / Question 51) and a number of related provisions affecting the significant risk transfer market.

We respectfully request that this letter be considered notwithstanding its submission shortly after the comment deadline.

Frank Benhamou

Partner and Portfolio Manager, Head of SRT

June 18, 2026

Benjamin W. McDonough, Secretary

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Email: publiccomments@frb.gov

Docket Nos. 1887, R-1888
RINs 7100-AH20, 7100-AH21

Jennifer M. Jones, Deputy Executive Secretary

Attention: Comments/Legal OES (RIN 3064-AF29)
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429
Email: comments@FDIC.gov

RINs 3064-AF29, 3064-AG23

Chief Counsel's Office

Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219

Docket IDs OCC-2026-0265, OCC-2026-0034
RINs 1557-AF52, 1557-AF49

Re: (i) Regulatory Capital Rules: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations (the "ERBA Proposal"); Response to Question 51; and (ii) Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets (the "Standardized Proposal"); Response to Question 22 and related provisions affecting the significant risk transfer market

Dear Ladies and Gentlemen:

Cheyne Capital appreciates the opportunity to comment on the Proposals as an active participant in the significant risk transfer ("SRT") market. We write on two matters. First, in response to Question 22 of the Standardized Proposal and Question 51 of the ERBA Proposal, we understand that the Agencies have received representations urging a broadening of the eligible guarantor definition, including to recognize guarantors on the basis of debt issued elsewhere within their corporate group; we oppose any such broadening and encourage the Agencies to retain the existing requirement that an eligible guarantor demonstrate investment-grade standing in its own right (Section 1). Second, we wish to record our support for a number of related positions, advanced by other commenters, that bear directly on the continued availability and prudent functioning of the SRT market (Section 2).

1. The eligible guarantor definition should not be broadened to recognize guarantors on the basis of group debt

Our central concern is the safety and soundness of the banking system and the interconnectedness that unfunded credit protection introduces. When a bank relies on a guarantee for capital relief, it exchanges credit risk on the underlying exposure for credit risk on the guarantor, and that substitution is only prudent where the bank faces either a funded counterparty or an unfunded counterparty of high quality in its own right. Recognizing a guarantor on the strength of debt issued by its parent or holding company severs that link: the capacity to perform on a credit guarantee is an attribute of the entity that bears the obligation, not of its corporate group. Parent-issued debt reflects the group's funding access and the market's view of consolidated credit; it does not establish that a particular operating subsidiary has the standalone resources, and the unconditional obligation, to pay claims when they fall due. Permitting such recognition would attribute to the guarantor a strength that resides elsewhere in the structure,

build additional interconnectedness into the system on the basis of that misattribution, and leave banks exposed to a counterparty they cannot directly call upon at the moment protection is most needed.

Nor is there an unmet need that would justify broadening the definition. The market for credit risk transfer is already served by a deep and well-established funded investor base, which provides banks with abundant capacity to transfer risk against cash collateral without introducing unfunded counterparty exposure. This is borne out in practice: in our experience, significant risk transfer transactions are often oversubscribed on the junior tranches that attract investor demand. There is, in other words, no shortage of junior investors that would warrant opening the market on junior tranches to insurers at the cost of increased interconnectedness. The existing framework is not a constraint on the availability of protection; it is a discipline that keeps recognized mitigants either funded or of high standalone quality. We would add that, in our experience, insurers are most valuable where they are best suited to bear risk – in the more senior parts of the capital structure, such as senior notes – rather than as substitutes for funded protection on first-loss or mezzanine risk. Against this backdrop, broadening eligible guarantor status would deliver no discernible benefit to the financial system; its principal effect would be to open a new investment avenue for insurers, while adding interconnectedness that the system does not need.

Accordingly, we respectfully urge the Agencies not to broaden the eligible guarantor definition, and in particular not to recognize guarantors on the basis of debt issued elsewhere within their corporate group. Retaining the existing requirement – that a guarantor be funded or of high investment-grade quality in its own right – best preserves the safety and soundness of the banking system and guards against the build-up of unwarranted interconnectedness.

2. Other positions on the Proposals that we support

As context for the positions below, we record our broader support for the direction of the Proposals in two respects. First, we welcome the Agencies' retention of the supervisory parameter p at 0.5 under the Securitization Standardized Approach (SEC-SA), together with the more risk-sensitive calibration of securitization risk weights, and we encourage the Agencies not to revert to the more conservative calibration of the 2023 Proposal. Second, we welcome the recognition of eligible prepaid credit protection arrangements as a new category of credit risk mitigant, which provides a sound, funded basis for the SRT structures on which the market depends. Building on that direction of travel, we support the following specific positions advanced by other commenters.

2.1 The word "solely" should not be added to the securitization performance test

We support this recommendation. As drafted, the "solely" standard would cause many synthetic SRT transactions to fall out of the securitization framework entirely, reverting the retained exposure to the gross risk weight of the underlying assets and operating as a retroactive cliff on the existing book. We urge that it not be adopted.

2.2 The mechanics of eligible prepaid credit protection arrangements should be refined

We support measuring the protection amount by the outstanding principal balance of the notes rather than their fair-value carrying value, and aligning the loss-recognition trigger with the "occurrence of a default" standard applied to eligible guarantees. Both reflect how funded protection actually operates and avoid understating protection that is fully cash-collateralised up front.

2.3 The conditions for recognizing a regulatory clean-up call should be expanded

We support expanding these conditions, which as proposed are too narrow to be of practical use. Banks should be able to unwind SRT transactions that no longer deliver their intended economic benefit following a change in law.

2.4 Credit-linked note issuance should be confirmed and the Regulation Q FAQs withdrawn

We support withdrawing the Federal Reserve Board's Regulation Q FAQs and confirming that banking organizations may continue issuing credit-linked notes in reliance on existing reservations of authority.

Codifying these funded structures in the rule, rather than through case-by-case determinations, would materially reduce friction in the US SRT market.

Sincerely,
Cheyne Capital