NUVEEN FUND ADVISORS, LLC

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-C19

Submitter Information

Organization Name: Nuveen Fund Advisors, LLC

Organization Type: Company

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Nuveen appreciates the opportunity to submit the attached comment letter.

nuveen
A TIAA Company

June 11, 2026

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
Attention: Benjamin W. McDonough, Secretary of the Board

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429
Attention: Jennifer M. Jones, Deputy Executive Secretary

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

Re: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations (Federal Reserve Docket No. 1887, RIN 7100-AH20; FDIC RIN 3064-AF29; OCC Docket ID OCC-2026-0265, RIN 1557-AF52)

Ladies and Gentlemen:

Nuveen Fund Advisors, LLC ("Nuveen") appreciates the opportunity to comment on the joint notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the "Agencies") to revise the risk-based regulatory capital requirements for large U.S. banking organizations (the "Proposal").[1] The Proposal would implement, with modifications, the international capital standards set in response to the 2008 financial crisis by the Basel Committee on Banking Supervision ("Basel Committee") in 2010 and revised in 2017 ("Basel III"). The Proposal would also expand and standardize certain capital requirements by making the expanded risk-based approach mandatory for Category I and Category II banking organizations and their depository institution subsidiaries — the largest and most systemically significant U.S. banking organizations — while allowing Category III and Category IV banking organizations (which generally include banking organizations with total consolidated assets of at least $100 billion that do not meet the thresholds for Category I or II) to opt into the expanded risk-based approach rather than being subject to it on a mandatory basis ("large U.S. banks"). While directly applicable to large U.S. banks, the Proposal also would affect bank counterparties and the broader

[1] *See Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations*, 91 F.R. 14952 (Mar. 27, 2026).

financial system through everyday lending, mortgages, retail banking, as well as their connections to municipalities and investment funds, as discussed below.

Nuveen is the asset management arm of the TIAA group of companies and is the largest adviser of listed closed-end investment companies registered under the Investment Company Act of 1940, as amended ("closed-end funds" registered under the "1940 Act"), advising 39 closed-end funds. Nuveen advises 23 municipal closed-end funds which invest primarily in municipal bonds that are exempt from federal income tax. Closed-end funds, including municipal bond funds, may issue preferred stock to seek to enhance fund returns. Currently, Nuveen closed-end funds have $12 billion in preferred stock outstanding, and over $6 billion of this is directly held by banking organizations subject to the Proposal.

Although we appreciate the Proposal's policy objectives, we have serious concerns about its sweeping nature and its potential impact on closed-end funds that have issued, or may issue, preferred stock. In particular, the Proposal's introduction of a new definition for a "subordinated exposure" could be interpreted to include preferred stock issued by closed-end funds. Such a result could significantly harm closed-end funds and raise costs for fund shareholders, often individuals. While preferred stock issued by closed-end funds is technically junior in priority to any indebtedness of the fund, it bears no meaningful resemblance to the subordinated corporate debt and capital instruments that the new risk-weight category was designed to address, for the reasons set forth below. Applying a 150 percent risk weight to such instruments would be flatly inconsistent with the stated policy purposes underlying the new definition and would further no legitimate capital adequacy objective.

I. <u>Potential Treatment of Closed-End Fund Preferred Stock Under the Proposal</u>

The Proposal would introduce a new category of risk-weighting applicable to "subordinated exposures" which would generally assign a 150 percent risk weight to such exposures.[2] The proposed definition would include "an exposure to preferred stock that is not an equity exposure," among other instruments.[3] Under the current capital rules and the Proposal, an "equity exposure" is defined to include exposures to equity instruments that do not have mandatory contractual payments.[4] Because closed-end fund preferred stock typically carries mandatory cumulative dividend obligations, it would likely fall outside the definition of "equity exposure" and therefore within the definition of "subordinated exposure" as "preferred stock that is not an equity exposure."[5] We believe such a result would be erroneous and potentially harmful while furthering no legitimate policy purpose.

The definition of "subordinated exposure" is "meant to capture the types of entities that issue subordinated instruments *and for which the level of subordination is a meaningful determinant of*

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[2] Proposal at 14977. Under the current standardized approach, these instruments generally receive a 100 percent corporate risk weight.

[3] *Id.*

[4] The Proposal would not revise the current definition of "equity exposure." *See* Proposal at 14994, n. 166 ("Consistent with the current capital rule, the proposal would define equity exposure to include exposures to equity instruments that do not have mandatory contractual payments, among other requirements.").

[5] Ownership interests that have a payment or other similar obligation on the part of the issuing company (such as an obligation to make periodic payments) are excluded from being treated as equity exposures. *See* 12 C.F.R. § 217.2. Under U.S. Generally Accepted Accounting Principles ("GAAP"), mandatorily redeemable preferred stock is classified as a "debt security" rather than an equity instrument. *See* ASC 320-10-20.

the credit risk of the instrument" per the Proposal.[6] As discussed below, preferred stock issued by closed-end funds does not meet that standard. The statutory, contractual, and structural protections applicable to closed-end fund preferred stock constrain the credit risk associated with the preferred holder's junior legal position such that it should not be considered a "meaningful determinant" of the instrument's credit risk. Further, if made applicable to closed-end fund preferred stock, the proposed definition would assign a greater risk weight than the weight assigned to closed-end fund common stock, despite the fact that common stock poses a greater risk of loss than preferred stock and has a lower priority than preferred stock with respect to distributions and in the event of a fund's liquidation. This would contradict the Proposal's aim of providing "more risk-sensitive approaches for several exposure categories."[7]

II. Inapplicability of the "Subordinated Exposure" Classification to Closed-End Fund Preferred Stock and Its Materially Lower Credit Risk Profile Relative to Operating Company Instruments

The comprehensive regulatory framework governing closed-end funds under the 1940 Act affords holders of closed-end fund preferred stock robust protections, such as mandatory asset coverage requirements, that have no counterpart in the operating company context.[8] It is an established market practice that closed-end funds issue preferred stock as the most senior claim in the capital structure, which is inconsistent with the Proposal's own definition of a "subordinated exposure" and does not reflect the characteristics that the Basel Committee sought to address when establishing a 150 percent risk weight for such instruments. This practice, and others, provides further safeguards that are largely absent from operating company preferred stock offerings. Moreover, the diversification requirements imposed on the vast majority of closed-end funds under the Internal Revenue Code of 1986 (the "Internal Revenue Code") meaningfully mitigate concentration risk that could negatively affect operating companies, which may depend heavily on a single product or service line. Together, these distinctions compel differentiated treatment under the capital requirements.

A. Mandatory Asset Coverage Requirements Reduce Risk of Closed-End Fund Preferred Stock

The 1940 Act mandates that closed-end funds maintain no less than 200 percent asset coverage for any outstanding preferred stock, measured both at the time of issuance and as of the declaration date of any distribution on common shares.[9] Practically, a closed-end fund must hold $2.00 in assets for every $1.00 of preferred stock it has issued—a safeguard that generally is not present in the operating company context. The 1940 Act further constrains the capital structure of closed-end funds by permitting subordination of preferred stock only to senior securities carrying 300 percent asset coverage.[10] By contrast, operating company preferred stock is not so fettered and generally ranks junior to both secured and unsecured senior obligations without any mandated asset coverage threshold. Beyond these statutory floors, the governing documents of closed-end fund preferred stock customarily impose even more stringent asset coverage levels (e.g., 225 percent) and generally obligate the fund to remedy any breach within a compressed timeframe. Closed-end fund

[6] Proposal at 14977. (emphasis added).
[7] Proposal at 14977.
[8] *See generally* 15 U.S.C. §§ 80a-1 – 80a-64.
[9] *See* § 80a-18(a)(2).
[10] *See* § 80a-18(a)(1).

documentation also commonly restricts the fund's aggregate "effective leverage," encompassing senior debt securities, preferred stock, borrowings, and the leverage effects of derivatives and other instruments. The cumulative force of these regulatory and contractual asset coverage requirements materially diminishes the default risk associated with closed-end fund preferred stock relative to preferred shares of a typical operating company. In fact, Nuveen is not aware of any defaults associated with closed-end fund preferred stock. In a liquidation scenario, the prospect that a preferred shareholder of a closed-end fund would fail to recover its investment in full is remote.

B. Closed-End Fund Preferred Stock Typically Represents the Most Senior Claim in the Capital Structure

In Question 29, the Agencies specifically requested comment on "what, if any, exposures the proposed definition [of subordinated exposure] would capture that commenters believe would not reflect heightened credit risk that merits a heightened risk weight." Preferred stock issued by closed-end funds is precisely such an exposure.

For many closed-end funds, particularly municipal bond closed-end funds, preferred stock is not just one of many senior instruments, but rather the most senior instrument in the fund's capital structure. The governing documents of closed-end fund preferred stock customarily prohibit the fund from issuing any debt or other obligation that would rank senior to the preferred stock, except in limited circumstances (such as temporary borrowings for cash flow purposes or the issuance of tender option bonds). As a result, preferred shareholders generally hold the most senior claim on the fund's assets, ahead of all other investors.

This structural reality is reinforced by the 1940 Act itself. Under Section 18(g) of the 1940 Act, both bonds and preferred stock issued by a closed-end fund are "senior securities." The 1940 Act expressly distinguishes "senior securities representing indebtedness"—which are subject to a 300 percent asset coverage requirement under Section 18(a)(1) of the 1940 Act—from preferred stock, which is subject to a 200 percent asset coverage requirement under Section 18(a)(2) of the 1940 Act. The 1940 Act's framework thus recognizes that closed-end fund preferred stock occupies a distinct and protected position in the capital structure, one that is not meaningfully "subordinated" in the sense of the Proposal.

C. Closed-End Fund Preferred Stock Does Not Satisfy the Proposal's Own Definition of "Subordinated Exposure"

There is no basis for treating closed-end fund preferred stock as a subordinated instrument when it typically represents the most senior claim on a diversified pool of assets or where, for those funds that also carry senior debt, the mandatory 300 percent asset coverage for that debt ensures that the preferred stock remains materially protected in any realistic loss scenario. The Proposal itself defines a "subordinated exposure" as one where "the documentation creating or evidencing such indebtedness (or a separate intercreditor agreement) provides for the issuer's or obligor's general creditors to rank senior to the payment of such indebtedness in the event the issuer or obligor becomes the subject of a bankruptcy or other insolvency proceeding." Closed-end fund preferred stock does not meet this definition: preferred shareholders rank ahead of common shareholders, and there are no general creditors senior to the preferred stock in the typical closed-end fund capital structure.[11] The Proposal's explicit inclusion of "preferred stock that is not an equity exposure" in the definition of "subordinated exposure" would impose a 150 percent risk weight even where the preferred stock is either the most senior claim on the fund's assets or protected by significant asset coverage requirements. This result is not only analytically unsound but also directly contrary to the Proposal's stated objective of aligning capital requirements with actual credit risk.

D. The Basel III Framework Underlying the 150% Risk Weight Was Not Designed for Closed-End Fund Preferred Stock

The Agencies have indicated that the 150 percent risk weight for subordinated exposures is consistent with Basel standards.[12] That is accurate as a general matter: the Basel Committee's finalized credit risk framework contemplates a 150 percent risk weight for subordinated debt and capital instruments other than equities in the standardized approach.[13] But the Basel III standard was designed to address the credit risk profile of subordinated debt and preferred capital instruments issued by operating companies and financial institutions, not closed-end funds.[14] The creditworthiness of corporates and banks depends on the performance of a core business and such entities are not subject to mandatory asset coverage requirements, mandatory portfolio diversification, or the structural constraints of a regulated investment company. Closed-end fund preferred stock is meaningfully distinct since its credit profile is a direct function of the marked-to-market value of a diversified portfolio of publicly traded securities, and its holders are protected in ways that have no comparison in the operating company context. Applying a 150 percent risk weight to such an instrument may achieve consistency with the strict letter of Basel III but not its underlying rationale. Thus, the Agencies should clarify, in any final rule, that preferred stock issued by registered closed-end funds is not a "subordinated exposure" for purposes of the expanded risk-based approach.

E. Additional Structural Protections Under the 1940 Act, the Internal Revenue Code, and Established Market Conventions

The 1940 Act and the rules thereunder further structurally protect holders of closed-end fund preferred stock and distinguish them from holders of operating company preferred stock. These include: (i) restrictions on transactions between closed-end funds and their affiliates, guarding against self-dealing and overreach by affiliated persons;[15] (ii) mandated disclosure of fundamental investment policies and prohibitions on material changes to those policies absent shareholder

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[11] Proposal at 14977. As noted, even for those closed-end funds that also issue senior debt securities under Section 18(a)(1) of the 1940 Act, that senior debt is itself subject to a mandatory 300 percent asset coverage requirement. In either capital structure, the preferred shareholder's position is protected by mandatory, monitored, and enforceable asset coverage ratios. This protection is entirely absent from the operating company context. The "meaningful determinant" test should be assessed against that backdrop, not against the technical characterization of priority lacking context.

[12] *See* Proposal at 14977.

[13] *See* Basel Comm. on Banking Supervision, Basel III: Finalising post-crisis reforms ¶ 53 (Dec. 2017) ("Banks will assign a risk weight of 150% to subordinated debt and capital instruments other than equities.")

[14] *See id.* at ¶ 49 (providing that the treatment "applies to subordinated debt, equity and other regulatory capital instruments issued by either corporates or banks …").

[15] *See* §§ 80a-17(a), 17(d); 17 C.F.R. §§ 270.0-1(a)(7), 17a-7, 17d-1 (generally prohibiting affiliated persons, acting as principal, (1) from buying property from, or selling property to, a fund and (2) from participating in or effecting any transaction in which a fund is a joint or a joint and several participant with the affiliate without prior SEC approval). *See also* 15 U.S.C. § 80a-10(f) (prohibiting knowingly acquiring any security during an underwriting when a principal underwriter of the security is an affiliate of the company).

approval;[16] (iii) limitations on investments in securities of other registered investment companies[17] (including other closed-end funds),[18] insurance companies,[19] and securities-related issuers;[20] (iv) constraints on borrowing activity, including the deployment of derivatives;[21] (v) restrictions on a fund's ability to extend loans;[22] and (vi) fair valuation methodology requirements that obligate any closed-end fund that strikes a daily net asset value per share to mark its portfolio to market each day.[23] In addition, closed-end funds may only issue a single class of preferred stock under the 1940

[16] *See* § 80a-8(b)(1)-(2) (including policies regarding classification and sub-classifications of the fund, borrowing money, issuance of senior securities, underwriting securities of other persons, concentration, transactions in real estate and commodities, making loans to others, portfolio turnover, and any other policies that may only be changed by shareholder vote). *See also* § 80a-13(a).

[17] *See* § 80a-12(d)(1)(A) (generally limiting investments by a fund to: (1) no more than 3% of the total outstanding voting stock of any one investment company; (2) securities issued by an investment company having an aggregate value of no more than 5% of the value of the total assets of the investing fund; or (3) securities issued by an investment company and all other investments companies (other than treasury stock of the investment company) having an aggregate value of no more than 10% of the total value of the assets of the investing fund). Rule 12d1-4 under the 1940 Act provides certain exemptions to these requirements, but contains provisions designed to prohibit complex funds of funds structures. *See* 17 C.F.R. § 270.12d1-4.

[18] *See* 15 U.S.C. § 80a-12(d)(1)(C) (prohibiting a fund and any company controlled by the fund from acquiring any security issued by a closed-end fund, if immediately after such acquisition, the fund, other investment companies having the same investment adviser, and companies controlled by such investment companies own more than 10% of the total outstanding voting stock of the closed-end fund).

[19] *See* § 80a-12(d)(2) (prohibiting a fund from purchasing or otherwise acquiring any security issued by or other interest in an insurance company if the fund and any company controlled by the fund will hold in the aggregate greater than 10% of the insurance company's outstanding voting stock).

[20] *See* § 80a-12(d)(3); 17 C.F.R. § 270.12d3-1 (generally prohibiting a fund or any company controlled by the fund from acquiring securities of any issuer that derives more than 15% of its revenues from securities-related activities (including securities brokerage, underwriting and investment advisory services) only to the extent that immediately after such purchase, the fund: (1) owns not more than 5% of a class of outstanding equity securities of the issuer; (2) owns not more than 10% of the outstanding principal amount of the issuer's debt securities; and (3) has invested not more than 5% of the value of its total assets in the securities of the issuer).

[21] *See* 15 U.S.C. §§ 80a-18(a)(1), 80a-18(g); and 17 C.F.R. § 270.18f-4. Sections 18(a) and (g) of the 1940 Act prohibit a closed-end fund from engaging in borrowing and entering into other indebtedness unless: (a) the fund has asset coverage of 300% for all borrowings and other indebtedness of the fund (calculated at the time of borrowing and as the ratio of the fund's total assets (less all liabilities and indebtedness not represented by senior securities) over the aggregate amount of the fund's outstanding senior securities representing indebtedness) and complies with certain additional limits; or (b) such borrowing is for temporary purposes only, provided that such temporary borrowings are in an amount not exceeding 5% of the fund's total assets at the time when the borrowing is made). Rule 18f-4 under the 1940 Act permits a fund to enter into derivatives transactions and other transactions that create future payment or delivery obligations, including short sales, notwithstanding the senior security provisions of the 1940 Act as discussed above if the fund complies with certain value-at-risk leverage limits and derivatives risk management program and board oversight and reporting requirements or complies with a "limited derivatives users" exception limiting the fund's derivatives notional value to 10% of the fund's net assets on an ongoing basis. Rule 18f-4 also permits a fund to enter into reverse repurchase agreements or similar financing transactions notwithstanding the senior security provisions of the 1940 Act as discussed above if the fund either (1) aggregates the amount of indebtedness associated with its reverse repurchase agreements or similar financing transactions with the aggregate amount of any other senior securities representing indebtedness when calculating its asset coverage ratios as discussed above or treats all such transactions as derivatives transactions for all purposes under Rule 18f-4.

[22] *See* 15 U.S.C. § 80a-21 (prohibiting a fund from lending money or property to any person if (1) the loan is prohibited by the fund's investment policies, or (2) the borrower controls or is under common control with the fund, other than a company which owns all of the outstanding securities of the fund).

[23] *See* 17 C.F.R. §§ 270.2a-5; 31a-4 (requiring (1) periodic assessments and management of valuation risks, (2) establishment and application of fair value methodologies to fund investments, (3) fair value determinations be made by the fund's board or a "valuation designee" and (4) funds or their advisers to maintain appropriate documentation to support fair value determinations).

Act, whereas operating companies face no such limitation and may layer multiple classes of preferred stock.[24] Distributions on closed-end fund preferred stock must be cumulative—constituting fixed, mandatory payments of earnings.[25] Preferred shareholders of closed-end funds also enjoy enhanced governance rights, including the right, voting as a class, to elect no fewer than two directors at all times and to participate alongside common shareholders in the election of the remaining directors.[26] No analogous regulatory architecture governs operating companies, rendering their preferred stock inherently subject to greater risk than that of closed-end funds.

Moreover, the vast majority of closed-end funds are structured and managed to satisfy the regulated investment company ("RIC") diversification standards prescribed by Subchapter M of Subtitle A, Chapter 1 of the Internal Revenue Code, which compels diversified portfolio exposure across multiple issuers.[27] This stands in stark contrast to operating companies, whose fortunes typically hinge on a single management team and may turn on the performance of a discrete product or service line. The availability of "look-through" treatment for investments in closed-end fund common stock—recognized under both the existing rule and the Proposal—underscores this distinction. A closed-end fund's principal risks are a function of the credit and market risks embedded in its portfolio holdings, rather than idiosyncratic operational risks.

Closed-end fund preferred stock also benefits from well-established and protective market conventions that are largely absent from operating company preferred stock offerings. Notably, based on our experience as the largest adviser of closed-end funds, substantially all closed-end fund preferred stock carry investment-grade ratings and incorporate mandatory de-leveraging mechanisms that are triggered when asset coverage falls below specified thresholds.[28] Specifically, the preferred stock of municipal closed-end funds is typically rated in the AA category and the preferred stock of closed-end funds with taxable strategies is typically rated either AA or A. These ratings appropriately reflect the risk of loss inherent in these instruments. The governing documentation for closed-end fund preferred stock customarily further restricts the fund's ability to incur indebtedness that would rank senior to the preferred stock.

III. Adverse Impact to Large Banking Organizations and the Broader Market

Banking organizations subject to the Proposal, which are currently the predominant investors in closed-end fund preferred stock, would be greatly disincentivized from purchasing such preferred

[24] *See* 15 U.S.C. § 80a-18(c).
[25] *See* § 80a-18(a)(2)(E).
[26] *See* § 80a-18(a)(2). This section also provides preferred shareholders a right to elect a majority of the directors if at any time dividends on the preferred stock are unpaid in an amount equal to two full years' dividends on the preferred stock, which right would continue until all dividends have been paid in arrears or otherwise provided for.
[27] To qualify as a RIC under the Internal Revenue Code, a fund must satisfy a two-part diversification standard. *See* 26 U.S.C. § 851(b)(3)(A). To qualify, on the close of each quarter of the taxable year at least 50% of the fund's total assets must be invested in cash, cash items (including receivables), Government securities, securities of other RICs, and investments in other securities, so long as no more than 5% are invested in the securities of any one issuer and the fund does not own more than 10% of the outstanding voting securities of any one issuer. Additionally, no more than 25% of the investment company's total assets may be invested in securities (other than government securities or securities of other RICs) of any one issuer or two or more issuers that the fund controls and that are engaged in the same or similar trade or business. *See* § 851(b)(3)(B).
[28] *See e.g.,* Fitch Ratings, *Fitch Affirms Ratings on Preferred Shares Issued by Nuveen Municipal High Income Opportunity Fund*, (Apr. 28, 2026), available at https://www.fitchratings.com/research/fund-asset-managers/fitch-affirms-ratings-on-preferred-shares-issued-by-nuveen-municipal-high-income-opportunity-fund-28-04-2026.

stock if assigned a 150 percent risk weight. The Proposal would negatively impact the business operations of such banking organizations because they would be deprived of the benefits of holding investment-grade products that include definitive "holding tenors" that can range from less than 90 days to 3 years. These shorter tenors reduce duration risk and limit credit exposure relative to longer-dated instruments, and they provide an additional layer of protection beyond those discussed above.

The adverse consequences of a 150 percent risk weighting on preferred stock of closed-end funds would extend beyond the banking organizations subject to the Proposal. Bank demand reduction would cause many closed-end funds to seek leverage from alternative sources, which likely would be more costly and less stable. Any increased expenses for closed-end funds would be passed on to common shareholders, which are predominantly individuals. Forcing closed-end funds to seek alternative sources of borrowing also would interject a significant amount of unintended refinancing risk into this market segment because these sources are considerably less predictable than closed-end fund preferred stock. If municipal closed-end funds were unable to market preferred stock to banking institutions, those funds would generally not be in a position to replace this preferred stock leverage with debt financing given certain 1940 Act limits on debt leverage. These funds would then be required to maintain lower total levels of leverage which would have an impact on their ability to deliver returns for investors.

Further, municipal bond closed-end funds serve as an important source of capital for the municipal bond market, providing liquidity and demand for the debt obligations of state and local governments that finance critical public infrastructure, schools, and other public services.[29] The effect of this would ultimately increase borrowing costs for the municipalities that depend on these markets. Municipal bond closed-end funds also utilize preferred stock because they can pass along the tax benefits of the underlying portfolio to investors in the form of tax-exempt interest dividends.[30]

These unintended negative consequences for closed-end funds would result from regulatory action not taken by their primary regulator, the Securities and Exchange Commission, and would be borne not only by fund investors but also, indirectly, by taxpayers and communities throughout the country.

IV. Proposed Solutions

Instead of introducing this potentially harmful ambiguity as a part of the Proposal, we recommend that the Agencies adopt one or more of the following solutions, presented in order of preference.

(a) Clean Carve-Out. The Agencies should amend the definition of "subordinated exposure" to explicitly exclude preferred stock issued by registered closed-end funds under the 1940 Act. This is the most straightforward solution, which would eliminate the risk of inadvertent application of the 150 percent risk weight to instruments that bear no meaningful resemblance

[29] *See* Investment Company Institute, *America Builds With Municipal Bonds: How Regulated Funds Connect Savers to Infrastructure* (Mar. 30, 2026) (explaining that "regulated funds," including closed-end funds, channel investor savings into the municipal bond market and that municipal bond funds provide a "deep, reliable market" for state and local debt, supporting market demand and liquidity).
[30] *See* 26 U.S.C. 852(b)(5).

to the subordinated exposures the definition is designed to address and avoid the market disruption and investor harm described above.

(b) Parity Backstop. At the very least, the Agencies should provide that preferred stock issued by a closed-end fund shall not be assigned a risk weight higher than the risk weight applicable to the common stock of the same fund under the look-through approaches. The Proposal would produce a perverse result that a bank holding senior preferred stock in a fund would face a higher risk weight than a bank holding junior common equity in the same fund. A parity backstop would prevent this inversion and reduce the risk weighting penalty imposed upon holders of safer instruments relative to holders of riskier ones.

(c) Risk-Weight Cap. The Agencies should also consider adopting a general rule providing that the risk weight for any credit exposure to an investment fund, including preferred stock, cannot exceed the risk weight for an equity exposure to the same fund as determined under the applicable look-through approach, excluding any leverage generated by the credit instrument itself. This cap would address the structural inversion described above across a broader range of instruments and fund types and more accurately reflect the principle that senior claims present less credit risk than junior ones.

We believe that any of these solutions would appropriately address the concerns described in this letter. We urge the Agencies to adopt the clean carve-out as the preferred approach due to its simplicity and clarity, with the parity backstop and risk-weight cap as alternative or supplementary measures.

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We appreciate the opportunity to provide comments on the Proposal. If you have any questions, please contact me (at 704-988-6543), my colleagues Nate Jones (at 312-917-9778) or Mark Winget (at 312-917-7883), or Corey F. Rose of Dechert LLP (at 202-261-3314) or Austin G. McComb of Dechert LLP (at 202-261-3430).

Sincerely,

John M. McCann
Senior Managing Director & Division General Counsel

cc: Nate Jones
Mark Winget
Corey F. Rose
Austin G. McComb