

SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION ASSET MANAGEMENT GROUP, LINDSEY WEBER KILJO

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-C44

Submitter Information

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Organization Type: Organization

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Submitted Date: 06/16/2026

SIFMA AMG is respectfully submitting our comment letter re: Docket No. R-1887, RIN 7100-AH20



June 18, 2026

Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System
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Jennifer M. Jones
Deputy Executive Secretary
Attention: Comments/Legal OES (RIN 3064–AF29)
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, DC 20219

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. R-1887, RIN 7100-AH20
FDIC: RIN 3064-AF29
OCC: Docket ID OCC-2026-0265

Re: Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y–15)

Federal Reserve: Docket No. R-1889, RIN 7100-AH22

Re: Regulatory Capital Rule: Regulatory Capital and Standardized Approach for Risk-Weighted Assets

Federal Reserve: Docket No. R-1888, RIN 7100-AH21
FDIC: RIN 3064-AG23
OCC: Docket ID OCC-2026-0034, RIN 1557-AF49



Ladies and Gentlemen:

The Securities Industry and Financial Markets Association Asset Management Group (“**SIFMA AMG**”)¹ appreciates the opportunity to comment on the proposal of the Office of the Comptroller of the Currency (“**the OCC**”), the Board of Governors of the Federal Reserve System (“**the Federal Reserve**”), and the Federal Deposit Insurance Corporation (“**the FDIC**” and, collectively with the OCC and the Federal Reserve, “**the Agencies**”) to modify the regulatory capital requirements applicable to large banking organizations and banking organizations with significant trading activity, which would implement the final components of the Basel III capital standards known as the Basel III endgame (“**the Basel III Proposal**”).² In addition, this letter includes SIFMA AMG’s comments on the amendment to the calculation of regulatory capital and the standard approach for all firms other than Category I and II firms and firms that elect to apply the expanded risk-based approach (“**the Standardized Approach**”), and the Federal Reserve’s proposal (“**the GSIB Surcharge Proposal**”),³ and collectively with the Basel III Proposal and the Standardized Approach, “**the Proposals**”) to make certain adjustments to the calculation of the GSIB surcharge for the U.S. GSIBs.

I. Executive Summary

SIFMA AMG members appreciate the Agencies’ policy objectives to bolster the safety and soundness of the U.S. banking system, and support measures that would ensure the resiliency and stability of the U.S. financial markets as they execute investment and hedging strategies in support of client goals including saving for college, buying a home and planning for retirement. SIFMA AMG commends the Agencies for addressing the many of design issues with the 2023 proposals that could have detrimental effects on pricing, transaction costs, the

¹ SIFMA AMG brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG’s members represent U.S. and global asset management firms whose combined assets under management exceed \$62 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, undertakings for collective investment in transferable securities (UCITS) and private funds such as hedge funds and private equity funds.

² <https://www.federalregister.gov/documents/2026/03/27/2026-05959/regulatory-capital-rule-category-i-and-ii-banking-organizations-banking-organizations-with>

³ <https://www.federalregister.gov/documents/2026/03/27/2026-05961/regulatory-capital-rule-regulation-q-risk-based-capital-surcharges-for-global-systemically-important>

availability of services and market liquidity.^{4,5} However, our members are still concerned with certain aspects of the 2026 Proposals that may have potential far-reaching, adverse effects on the U.S. financial markets.

To that end, we offer our comments to highlight the downstream effects the Proposals would have on ordinary investors and end-user members' clients. In particular, the Proposals could make it more difficult for asset managers to meet their clients' investment targets or mitigate risks in their portfolios, as banking organizations abandon or curtail their offerings in certain products or services, reduce their provision of liquidity in markets that are no longer commercially viable or become more selective as to their customers and counterparties.

This letter identifies three aspects of the Proposals that we think are most relevant to our concerns. They are:

- A.** Institutional and retail investors of regulated investment vehicles will be harmed by the Basel III Proposal due to:
 - a. the significant increases in the CVA capital requirement for large banking organizations' derivative transactions with RIVs;
 - b. the lack of appropriate recognition of hedging with equity derivatives under the FRTB DRC; and
 - c. the heightened risk weight for exposures to preferred stock of closed-end funds.
- B.** Investment funds and their institutional and retail clients will be harmed by the GSIB Surcharge Proposal's treatment of holdings of ETFs by banking organizations as systemically risky activities.
- C.** Investment funds and their institutional and retail clients will be harmed by the Proposals' failure to provide consistent risk-sensitive treatment for investment grade corporate exposures across the Basel III Proposal and the Standardized Approach, and to clarify the treatment of separate accounts when banking organizations face them as counterparties.

Each of these issues is discussed in more detail below.

⁴ <https://www.federalregister.gov/documents/2023/09/18/2023-19200/regulatory-capital-rule-large-banking-organizations-and-banking-organizations-with-significant>

⁵ <https://www.federalregister.gov/documents/2023/09/01/2023-16896/regulatory-capital-rule-risk-based-capital-surcharges-for-global-systemically-important-bank-holding>

II. Discussion

A. Absent targeted adjustments, the Basel III Proposal's CVA and FRTB DRC would harm institutional and retail investors in regulated investment vehicles.

Registered funds, employee plans, collective investment funds or collective investment trusts (collectively, regulated investment vehicles or “RIVs”) are important mechanisms through which investors and their institutional and retail clients access financial markets, particularly with respect to retirement savings. These entities rely on banking organizations as counterparties for derivatives transactions, which they generally use to hedge investment portfolio risks, such as foreign exchange risk, interest rate risk and credit risk, on behalf of their underlying institutional and retail investors. They are expected to be harmed through the new and increased capital requirements for credit valuation adjustment (“CVA”) and the punitive treatment of hedging with equity derivatives under the FRTB DRC, which would increase hedging costs.

a. The significant increases in the Basel III Proposal's CVA capital requirement for large banking organizations' derivative transactions with RIVs.

i. Proposed changes

For large U.S. banking institutions engaged in substantial trading and derivatives activities, CVA risk capital requirements are generally not part of the binding constraints under current U.S. bank capital regulations. The Basel III Proposal, however, would incorporate risk-weighted assets related to CVA risk into capital measures for these banking organizations. Meanwhile, these banking organizations are subject to stress capital buffer which separately sets capital requirements for CVA losses. Consequently, CVA risk related capital requirements—applicable primarily to bilateral OTC derivatives contracts—are anticipated to increase significantly.

ii. Negative consequences to RIVs and their investors

Since RIVs rely extensively on bilateral OTC derivatives to execute investment strategies and hedge risk arising therefrom, the CVA capital increases would inevitably have serious impact

on the costs and accessibility of derivatives with RIVs. As such, asset managers would likely find it increasingly more expensive to execute investment strategies and hedge risk arising therefrom. As derivatives' liquidity providers would have to assess the continued viability or costs of derivatives with RIVs, concentration and volatility risk would undoubtedly increase as the field of liquidity providers shrank in size.

iii. Recommended path forward

We recommend that the Agencies exempt bilateral OTC derivatives transactions with RIVs from the scope of CVA risk covered positions. The purpose of the CVA risk capital requirement is to address the risk that the CVA recognized under GAAP would increase as a result of increased credit spread risk and credit exposure risk. SIFMA AMG firmly believes that the many reforms to derivatives markets introduced since the 2008 Global Financial Crisis in terms of derivatives reporting, margining, clearing, and exchange trading; as well as reforms applicable to RIVs in terms of disclosure and creditworthiness, have served to mitigate perceived risks involving RIVs and derivatives usage. The possible benefits of increased CVA risk capital requirements cannot be justified given the otherwise significantly enhanced markets and the downside impact of reduced investment options and risk management capability.

It is important to note that authorities in the European Union have exempted banking organizations' derivatives transactions with Pension Funds from CVA risk capital requirements.⁶ In the United States, defined contribution plans rather than pension plans constitute the largest pools of retirement and long-term savings. In order to preserve analogous capital treatment for a banking organization's exposures to retirees and similar individuals and in light of the regulatory framework that applies to RIVs, the Agencies should provide a similar exemption for RIVs (including international RIVs).

⁶ Eur. Conim'n, Regulation (EU) No 648/2012 of the Eur. Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No 648/2012 Art. 382 pt. 4(b) (exempting pension scheme arrangements from CVA risk capital calculations); see also Eur. Conim'n, Regulation (EU) No 648/2012 of the Eur. Parliament and of the Council of 4 Jul. 2012 on OTC Derivatives, Central Counterparties and Trade Repositories, Art. 2 pt. 10 (defining the scope of "pension scheme arrangement").

b. The lack of appropriate recognition of hedging with equity derivatives under the Basel III Proposal's FRTB DRC.

i. Proposed changes

Banking organizations may hedge longer-dated equity derivatives with cash equities and more often with short-dated equity derivatives. These hedging practices support economically sensible risk management and, in turn, help asset managers access cost-effective hedging and financing through their bank counterparties. The Basel III Proposal's FRTB Default Risk Charge ("DRC") allows banking organizations to assign a cash equity position used to hedge derivative contracts with the same maturity as the derivative it hedges and, where a default risk position is deliverable into a hedged derivative, align the maturity of the default risk position with that derivative. In doing so, the Proposal would adequately recognize the hedging benefits of cash equity positions. However, the Proposal would not appropriately recognize the risk-reducing effects of short-dated derivatives that hedge longer-dated derivatives because the eligibility for offsetting treatment would be determined by the contractual maturity of the derivative contract. This U.S. approach to DRC remains one of the few examples of gold-plating relative to the international framework, which allows the use of models but is disallowed under the U.S. NPR. Given the global nature of the public equities markets, a globally consistent approach is important to avoid placing U.S. markets at a competitive disadvantage.

ii. Negative consequences to RIVs and their investors

This mismatch would prohibit banking organizations from reflecting the reduced risk of a longer-dated derivative hedged with a liquid and short-dated derivatives instrument (e.g., futures or plain-vanilla European or American options) in their FRTB DRC calculations, resulting capital requirement that would not be aligned with underlying economic risk. Since asset managers rely extensively on derivatives to execute investment strategies and hedge risk arising therefrom, the punitive treatment of equity derivatives under the FRTB DRC would inevitably have serious impact on the costs and accessibility of derivatives with RIVs. This mismatch can translate into higher prices, reduced capacity, and less reliable liquidity for hedging programs for asset managers that rely on banks to provide these instruments.

iii. Recommended path forward

We recommend that the Agencies permit banking organizations to assign to a derivative hedge the same maturity as the underlying derivative, so that the resulting capital requirement better reflects economic risk and asset managers can continue to hedge efficiently through their bank counterparties. This recommendation is also consistent with the approach Europe is planning for banks that do not use models. Given the global nature of the public equities markets, adopting a globally consistent approach is important to avoid disadvantaging U.S. markets.

c. The heightened risk weight for exposures to preferred stock of closed-end funds.

i. Proposed changes

The Basel III Proposal would revise the definition of “subordinated exposure” to include preferred stock that a banking organization does not treat as an equity exposure under the capital rules, subjecting those exposures to a 150% risk weight. Preferred stock issued by closed-end funds may fall outside the definition of an equity exposure if it carries a contractual periodic payment obligation. Because closed-end funds often issue preferred stock as a financing instrument with that feature, the stock could be treated as subordinated debt under the Proposal. Yet closed-end funds often have no other debt outstanding, meaning the preferred stock functions more like senior debt despite being subject to punitive capital treatment.

Closed-end fund preferred stock also does not present the same risks as similarly structured preferred stock issued by operating companies. The Investment Company Act of 1940 includes safeguards designed to ensure that closed-end funds maintain sufficient assets to meet their obligations and protect preferred shareholders. It also limits the amount of senior debt these funds may incur. Many municipal closed-end funds, for example, have no other material senior debt outstanding, so their preferred stock is effectively the fund’s senior debt. In addition, closed-end fund preferred shares are typically investment grade, and most held by banks have relatively short-stated maturities ranging from less than 90 days to three years. For these reasons, closed-end fund preferred stock should not receive the same regulatory capital treatment as preferred stock issued by operating companies.

ii. Negative consequences to funds and their investors

Applying a 150% risk weight to closed-end fund preferred stock would have significant negative market effects. It would make these instruments far less attractive to banking organizations, forcing closed-end funds to seek alternative financing sources, including other forms of leverage such as derivatives, and increasing refinancing risk in this segment. It would also raise leverage costs for common shareholders, who are primarily retail investors. This treatment also produces an arbitrary result that does not reflect economic reality. Although preferred stock has a liquidation preference over common stock, in some cases a closed-end fund's common stock could receive a lower risk weight than its preferred stock. For example, a closed-end fund invested solely in U.S. municipal general obligation bonds with less than material leverage would assign a 20% risk weight to its common equity under the look-through approach, while its preferred stock would receive a 150% risk weight. We do not believe that outcome is consistent with the Agencies' objectives, including making the capital rules more risk-sensitive.

iii. Recommended path forward

A 150% risk weight for closed-end fund preferred stock would not reflect the fact that these funds often have no other debt outstanding. In those cases, the preferred stock functions as the fund's senior debt, yet the Basel III Proposal would still treat it as subordinated debt. To better reflect that economic reality, we recommend excluding closed-end fund preferred stock from the definition of subordinated debt instrument. Alternatively, the definition could exclude preferred stock when it is the most senior source of leverage in a closed-end fund's capital structure—that is, when the fund has not issued any "senior securities representing indebtedness" under the '40 Act. At a minimum, preferred stock of a closed-end fund should not be treated less favorably than the fund's common stock.

B. Investment funds and their institutional and retail clients will be harmed by the GSIB Surcharge Proposal's treatment of holdings of ETFs by banking organizations as systemically risky activities.

Large banking organizations play an important role in the price discovery process for ETFs. The fundamental value of an ETF share theoretically should reflect a proportionate share of the value of its underlying exposures. Large banking organizations help intermediate this

price discovery process by purchasing ETF shares and hedging their exposure by shorting positions reflecting the underlying investments of ETF. ETFs also typically have a redemption process by which financial intermediaries may exchange a sufficient number of ETF shares for a proportionate basket of securities with equivalent value, which further supports the price discovery process. While other market participants also intermediate this price discovery process, large banking organizations play an important role.

i. Proposed changes

Inclusion of ETFs in the FR Y-15 Interconnectedness Indicators. The FR Y-15 interconnectedness indicators are intended to reflect the systemic risk associated with intra-financial system assets and liabilities and with securities issued by banking organizations, which can serve as transmission channels for stress throughout the financial system. For purposes of the interconnectedness indicators, the current FR Y-15 instructions define “financial institutions” as depository institutions, bank holding companies, securities brokers and dealers, insurance companies, mutual funds, hedge funds, pension funds, investment banks and central counterparties. The GSIB Surcharge Proposal would expand the definition of “financial institution” for purposes of the FR Y-15 interconnectedness indicators to include private equity funds, asset management companies and ETFs.

ii. Negative consequences to funds and their investors

This proposed change could disincentivize large banking organizations from holding exposures to the affected entities, including from holding equity securities issued by ETFs, which could hinder the price discovery process and concentrate and, thereby, exacerbate systemic risks related to interconnectedness.

The Federal Reserve supports its proposal to include ETFs within the definition of financial institutions for the purposes of the FR Y-15 interconnectedness indicators by drawing an analogy to mutual funds, which are already categorized as such. However, as noted by the Federal Reserve in the GSIB Surcharge Proposal, the current instructions for this line item specifically state that bond exchange traded funds should not be included. This guidance aligns with the Basel Committee on Banking Supervision’s instructions,⁷ which apply across all major

⁷ https://www.bis.org/bcbs/gsib/instr_end25_gsib.pdf

jurisdictions for determining GSIB status. To promote the global consistency of standards concerning GSIB status and surcharges, it is recommended that the Federal Reserve maintains its existing instructions regarding ETFs until any changes are first adopted by the Basel Committee.

The proposed change to how ETFs are treated under the interconnectedness indicators could discourage large banking organizations from serving key intermediary roles—such as authorized participants—in the ETF markets. This reduced involvement could, in turn, impair price discovery. Specifically, if large banking organizations become less willing to intermediate in the ETF markets, the negative effects would extend beyond ETF liquidity and price discovery to the underlying markets for instruments like equities and corporate bonds, which would also see diminished intermediation. A well-functioning ETF market has historically improved fixed income market structure by enhancing liquidity, price transparency, competition, and risk transfer mechanisms such as portfolio trading.

Admittedly, other market participants might step in to fill the role of large banking organizations as intermediaries. However, from a systemic risk standpoint, simply replacing one type of financial intermediary—like a large banking organization—with another does not reduce the system’s overall interconnectedness. On the contrary, to the extent that large banking organizations withdraw from intermediation in the price discovery process for ETF shares, this channel for transmitting systemic risk would become more concentrated among those remaining participants.

iii. Recommended path forward

In recognition of the unique attributes of ETFs and to promote a robust price discovery process supported by a diverse range of financial institutions, we recommend that the Federal Reserve exclude ETFs from the definition of financial institution for purposes of the FR Y-15 interconnectedness indicators.

- C. Investment funds and their institutional and retail clients will be harmed by the Proposals' failure to provide consistent risk-sensitive treatment for investment grade corporate exposures across the Basel III Proposal and the Standardized Approach, and to clarify the treatment of separate accounts when banking organizations face them as counterparties.**

i. Proposed changes

The Basel III Proposal provides a 65% risk weight for investment grade corporate exposures under certain conditions. Whereas the Standardized Approach would not provide a separate 65% risk weight for investment grade corporate exposures, as the Basel III Proposal would, and instead would provide a 95% risk weight for all corporate exposures. In addition, the proposed definition of "corporate exposure" appears to exclude separate accounts. Although the proposed rulemaking addresses how a banking organization should determine the applicable risk weight for an investment in a separate account, it does not specifically address the applicable risk weight when a banking organization faces a separate account as a counterparty rather than as an investment exposure.

ii. Negative consequences to RIVs and their investors

Applying the same 95% risk weight to investment grade and non-investment grade corporate exposures could weaken incentives for banking organizations that are subject to the Standardized Approach to differentiate exposures, which would have direct downstream impacts on investment funds and their investors. Higher, non-differentiated capital requirements on bank exposures to otherwise high-quality counterparties would likely increase the cost of banking services relied upon by funds.

The ambiguity for separate accounts could produce an additional unintended and non-risk-sensitive result. As proposed, banking organizations may be required to apply the residual 100% risk weight to exposures to separate accounts because the Proposals state that a 100% risk weight must be assigned to assets that are not specifically assigned a different risk weight. This would mean that a banking organization could not apply the 65% risk weight even where it determines that the separate account is investment grade, because the 65% risk weight is available under the proposed rulemaking only for investment grade "corporate exposures."

This outcome appears unintended and may reflect a drafting oversight. Separate accounts are important counterparties through which asset managers engage banking organizations for transactions that support investment, liquidity, and risk-management objectives for institutional and retail clients. Requiring banking organizations to assign a residual 100% risk weight to such exposures regardless of credit quality would reduce the risk sensitivity of the framework and could increase costs or reduce the availability of banking services for investment funds and their investors.

iii. Recommended path forward

We recommend that the Agencies include a 65% risk weight for investment grade corporate exposures to reflect the reduced risk of these exposures compared to general corporate exposures under the Standardized Approach, subject to robust internal governance, supervisory oversight, and periodic validation requirements. We also recommend that the Agencies clarify the drafting so that separate accounts are treated as corporate exposures when a banking organization faces the separate account as a counterparty, except where the exposure is an investment in a separate account and is therefore subject to the separate investment-exposure treatment. This clarification would allow banking organizations to apply the 65% risk weight to investment grade exposures to separate accounts where appropriate, while preserving the proposed rulemaking's distinct treatment for investments in separate accounts.

* * *

In conclusion, we respectfully request that the Agencies thoroughly consider our comments regarding downstream effects on retail, institutional, and fund investors as part of the comprehensive review of the U.S. bank capital framework. Our members are concerned that anticipated increases in costs and reductions in liquidity for investment products may adversely impact investors' ability to meet their investment objectives and manage risks effectively. While our members acknowledge and support the Agencies' objective of fostering a resilient banking sector, it is essential that additional feedback from our members be solicited to ensure an optimal balance between stability for banking institutions and the strength of U.S. capital markets. We recommend that the Agencies proceed with caution, and welcome opportunities to further discuss the examples provided so as to help mitigate potential negative consequences for the investing public when revising capital rules for banking organizations.



SIFMA AMG appreciates the Agencies' consideration of these comments and would be pleased to discuss our views in greater detail if it would assist with their deliberations on the Basel III Proposal. Please contact Lindsey Keljo at lkeljo@sifma.org or at (202) 962-7312 if you wish to discuss the points raised in this letter further.

Sincerely,

Lindsey Weber Keljo, Esq.

Head, Asset Management Group

Managing Director and Associate General Counsel

Securities Industry and Financial Markets Association