

CAPITAL ONE FINANCIAL CORPORATION , ROBERT ZIZKA

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-C51

Submitter Information

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Organization Type: Company

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Submitted Date: 06/18/2026

Please find the attached comment from Capital One Financial Corporation.



Capital One Financial Corporation
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Via Electronic Submission

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

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

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

June 18, 2026

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

Ladies and Gentlemen:

Capital One Financial Corporation (“**Capital One**” or “**we**”)¹ is pleased to submit this comment on the notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”), the Office of the Comptroller of the Currency (the “**OCC**”), and the Federal Deposit Insurance Corporation (the “**FDIC**,” and collectively with the Federal Reserve and the OCC, the “**Agencies**”) to modernize the capital requirements applicable to Category I and II firms (the “**Proposed Rule**”).² Capital One commends the Agencies’ efforts to modernize the regulatory capital framework and supports the Agencies’ objective of ensuring that the framework better reflects the risk profiles of traditional lending activities while maintaining a resilient financial system. We appreciate the opportunity to provide feedback on the Proposed Rule.

Capital One particularly welcomes the Agencies’ decision to align the U.S. capital framework more closely with the international Basel framework, a constructive approach that will not only promote traditional lending activities but also the global competitiveness of U.S. banking organizations. We also greatly

¹ Capital One Financial Corporation (www.capitalone.com) is a financial holding company which, along with its subsidiaries, had \$489 billion in deposits and \$683 billion in total assets as of March 31, 2026. Headquartered in McLean, Virginia, Capital One offers a broad spectrum of financial products and services to consumers, small businesses, and commercial clients through a variety of channels.

² See Federal Reserve, OCC, FDIC, 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 (March 27, 2026).

appreciate the Agencies' proposal to improve the risk sensitivity of the current Standardized Approach while retaining framework simplicity. Furthermore, we support the "single stack" framework, which eliminates complex parallel risk-weighted asset ("RWA") calculations and prevents unnecessary operational friction. Finally, Capital One commends the Agencies for preserving the 25% simplified threshold deduction framework for Category III and IV firms, a crucial measure that ensures regulatory requirements remain appropriately tailored to the distinct risk profiles of regional banking organizations. While we strongly support this preservation under the Standardized Approach, as we further explain below, we believe that this tailored treatment should not be withheld from Category III, IV, and smaller banking organizations (collectively referred to as "**regional and smaller banking organizations**") that elect to adopt the expanded risk-based approach ("**ERBA**").

This letter specifically addresses Question 4 of the Proposed Rule regarding the challenges of adopting ERBA for regional and smaller banking organizations. The Proposed Rule, as drafted, would require these firms to forfeit the 25% simplified deduction framework in exchange for the more restrictive 10% and 15% deduction thresholds upon opting in.³ For the reasons discussed below, we urge the Agencies to decouple the capital deduction framework from the ERBA election. Regional and smaller banking organizations should be permitted to retain the 25% simplified deduction threshold regardless of their RWA methodology. Retaining this threshold is essential to support traditional lending activities, preserve regulatory tailoring, remove the disincentive to adopt a more risk-sensitive framework, and ensure that capital requirements reflect the accounting and economic realities of a post-Current Expected Credit Losses ("**CECL**") environment.

I. The Agencies Should Retain the 25% Simplified Deduction Framework for Regional and Smaller Banking Organizations That Opt Into ERBA

For reasons explained below, we urge the Agencies to decouple the deduction framework from the ERBA election and allow regional and smaller banking organizations to retain the 25% simplified deduction framework when opting into ERBA:

- (a) ***Retaining the 25% threshold is consistent with the Agencies' stated goal of promoting traditional lending activities within the regulated sector.*** In the Proposed Rule, the Agencies emphasized the importance of ensuring that the capital framework does not inadvertently drive core banking activities toward less-regulated non-bank entities. The Agencies' recent decision to eliminate Mortgage Servicing Assets ("**MSAs**") as a threshold deduction item was a direct application of this principle, aimed at removing a "strong disincentive" for banks to engage in mortgage origination and servicing. The same principle should apply to temporary differences in deferred tax assets ("**DTAs**") generated by traditional lending activities. Because many regional and smaller banking organizations are traditional lenders, DTAs are a natural by-product of their core businesses. Imposing a more restrictive deduction framework creates a disincentive for regulated banks to engage in consumer and small business lending,⁴ and risks undermining the banking system's fundamental role in fueling economic growth.⁵ This dynamic was exacerbated when DTAs significantly increased following the adoption of the CECL standard (adopters' allowances increased by about 37% based on data as of January 1, 2020).⁶ This increase is particularly

³ *Id.*, at 14962.

⁴ This is particularly true with respect to many Category III and IV banks that have business models with fewer activities to offset DTAs than Category I and II banks that are already subject to the lower threshold.

⁵ See Vice Chair for Supervision Michelle W. Bowman, "Capital Rules for the Real Economy," (March 12, 2026), available at <https://www.federalreserve.gov/newsevents/speech/bowman20260312a.htm> ("When capital requirements become excessive, they impair the banking system's fundamental function of providing credit to the real economy. The price is paid in forgone economic growth, reduced job creation, and lower standards of living.")

⁶ See, e.g., Bert Loudis, et. al., "New Accounting Framework Faces Its First Test: CECL During the Pandemic," FEDS Notes (Dec. 3, 2021), available at <https://www.federalreserve.gov/econres/notes/feds-notes/new-accounting-framework-faces-its-first-test-cecl-during-the->

outsized for lending to higher risk and “newer to credit” consumers, potentially limiting needed credit to these populations and exacerbating affordability issues, as these activities create higher levels of recoverable DTAs under the CECL standard.

- (b) **Subjecting regional and smaller banking organizations to more restrictive deduction thresholds based on an ERBA election is unwarranted and inconsistent with tailoring principles.** The simplified 25% deduction threshold was originally adopted in the 2019 Capital Simplification Rule⁷ when the Agencies determined that the simplified 25% threshold would appropriately balance risk-sensitivity and complexity for non-advanced approaches banking organizations.⁸ In contrast, the more restrictive 10%/15% thresholds were reserved specifically for the largest, most internationally active firms whose “size, complexity, and international exposure” necessitated “a risk-sensitive treatment that more aggressively reduces potential interconnectedness among such firms.”⁹ This distinction is a fundamental principle of the tailoring framework, ensuring that regulatory burdens remain commensurate with a firm’s actual risk profile. A regional or smaller banking organization does not become more complex or systemic simply by opting into ERBA. Therefore, subjecting them to a more restrictive regime merely because they elect a more risk-sensitive RWA methodology would be fundamentally inconsistent with the Agencies’ tailoring principles. While we recognize that the Agencies may seek to promote consistency across all firms utilizing ERBA, the pursuit of “consistency” should not come at the expense of the statutory mandate for tailoring. It is important to note that even today, Category I and II firms utilize the same standardized approach as regional and smaller banking organizations (as part of their dual-stack capital framework)¹⁰, yet they are—appropriately—subject to different deduction thresholds based on their specific risk profiles.
- (c) **Tying the 10%/15% deduction framework to ERBA disincentivizes risk-sensitivity.** Linking the more restrictive deduction framework to the ERBA election creates an unintended barrier, inadvertently disincentivizing regional and smaller banking organizations from adopting a more risk-sensitive calculation methodology. Because a firm’s underlying risk profile, size, complexity, or global footprint does not simply change by electing a more risk-sensitive RWA methodology, the ERBA election should not serve as a trigger for more punitive deduction thresholds. Furthermore, we note that ERBA is not a direct successor to the Advanced Approaches (“AA”) framework, and the historical attachment of the 10%/15% thresholds to the AA framework should not automatically carry over to an ERBA election. The AA framework was originally and explicitly designed for the largest and most complex firms, and smaller banks generally did not opt into it. Conversely, ERBA is a fundamentally different approach that is more accessible to smaller firms, and the Agencies should avoid creating a structural barrier to its adoption by smaller firms. Decoupling these frameworks would better support the shared goal of encouraging regulatory modernization and the voluntary adoption of more risk-sensitive models for smaller firms.
- (d) **The 10%/15% thresholds are outdated and overly conservative, resulting in unintended negative consequences.** The 10%/15% deduction framework was calibrated in 2013—three years before the CECL standard was finalized in 2016 and well before its industry-wide adoption. Under CECL, banking organizations are required to front-load credit loss estimates, which led to a significant increase in allowances for credit losses (by about 37% based on data as of January 1,

[pandemic-20211203.html](#) (finding that the adoption of CECL “resulted in an immediate 37 percent increase in adopters’ allowances” on Jan. 1, 2020).

⁷ See Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 84 Fed. Reg. 35234 (July 22, 2019).

⁸ *Id.*

⁹ *Id.* at 49993.

¹⁰ Today, Category I and II firms must calculate regulatory capital under both the standardized approach and the advanced approaches, and the binding constraint is the more stringent of the two approaches.

2020). This increase in allowance directly created incremental DTAs.¹¹ Notably, the 25% simplified deduction threshold was adopted in 2019 in part to mitigate the adverse effects of anticipated increases in DTAs stemming from CECL.¹²

Second, the need for the 25% simplified deduction threshold is further underscored by the proposed removal of the AOCI opt-out for Category III and IV firms. The proposed removal of the AOCI opt-out means that DTAs associated with unrealized losses will now also count toward deduction thresholds. Imposing the more restrictive thresholds at the exact moment the firm's DTA balance is inflated by AOCI recognition creates an unwarranted "double hit" and introduces additional volatility into the firm's capital.

Third, overly conservative treatment of DTAs would result in procyclical impacts that could undermine the safety and soundness of banking organizations. Because stress conditions require a banking organization to significantly increase its allowances for credit losses, associated DTAs naturally expand during a downturn, which would in turn create additional stress on the organization's reported capital levels. This procyclicality arises not only in an actual downturn, but as a practical matter, impacts capital levels during normal economic times through the stress testing and capital planning processes. As noted above, the implementation of CECL exacerbates this concern. While the Agencies have historically focused on DTA realizability during stress, capital rules should be premised on a "going concern" basis; accordingly, theoretical concerns regarding a total absence of future taxable income should not drive policy for resilient banking organizations.

Finally, DTAs on an organization's balance sheet are already subject to a "more-likely-than-not" realization standard under the Generally Accepted Accounting Principles ("GAAP"), such that DTAs not meeting that standard must be charged off via a valuation allowance. Experience has shown that such valuation allowances have been established with appropriate conservatism, ensuring that the remaining DTAs are valuable assets. As a result, any deduction of the DTAs from regulatory capital is definitionally conservative and should not be further constrained.

II. Conclusion

In conclusion, Capital One urges the Agencies to retain the 25% simplified deduction threshold for regional and smaller banking organizations that elect to calculate their risk-weighted assets using ERBA.

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¹¹ See, e.g., Bert Loudis, et. al., "New Accounting Framework Faces Its First Test: CECL During the Pandemic," FEDS Notes (Dec. 3, 2021), available at <https://www.federalreserve.gov/econres/notes/feds-notes/new-accounting-framework-faces-its-first-test-cecl-during-the-pandemic-20211203.html> (finding that the adoption of CECL "resulted in an immediate 37 percent increase in adopters' allowances" on Jan. 1, 2020).

¹² Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 84 Fed. Reg. 35234, at 35239 (July 22, 2019).

Thank you for considering the recommendations set forth in this letter. If you have any questions, please contact the undersigned at robert.zizka@capitalone.com.

Sincerely,

/s/ Robert Zizka

Robert Zizka
Treasurer, EVP Capital Markets & Analytics