ROYAL BANK OF CANADA, JASON DRYSDALE

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

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Submitter Information

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Organization Type: Company

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Royal Bank of Canada Comment on R-1887 RIN 7100-AH20

To: **Office of the Comptroller of the Currency ("OCC")**
12 CFR Parts 3, 6, and 32 [Docket ID OCC–2026–0265] RIN 1557–AF52

Federal Reserve System ("Board")
12 CFR Parts 208, 217, 225, 238, and 252 [Docket No. 1887] RIN 7100–AH20

Federal Deposit Insurance Corporation ("FDIC")
12 CFR Part 324 RIN 3064–AF29 Agency: OCC, Board, and FDIC

Date: June 18, 2026

Subject: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations

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All,

Royal Bank of Canada ("RBC") appreciates the opportunity to provide our comments to the OCC, the Board, and the FDIC in response to the joint notice of proposed rulemaking (the "Notice") relating to the proposed rule *"Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations*.

RBC's comments are specific to Question 12, and Question 127 outlined below.

Question 12: What are the pros and cons of continuing the risk-weights in the current standardized approach for sovereigns, specified supranational entities and multilateral development banks, GSEs in the form of senior debt and guaranteed exposures, FHLB and Farmer Mac equity exposures, PSEs, exposures that are 90 days or more past due or in nonaccrual, insurance assets, and other exposures?

Question 127: The agencies seek comment on the risk weight for covered bonds. What, if any, alternative approaches would better serve to differentiate the credit quality of highly rated covered bonds without referring to credit ratings and why?

Executive Summary

Proposed rules do not specifically address standardized risk weight for covered bonds, but the Agencies are seeking a comment on the risk weight for covered bonds in Question 127. We are also referring to Agencies Question 12 that refers to the standardized risk-weights for GSE as certain sections (Page 117) of the proposed rule compares covered bonds with the GSE debt.

We recommend the Agencies assign 10% risk weighting to covered bonds under The Standardized Approach and Enhanced Risk-Based Approach (ERBA) because:

- Brings the US in-line with international standards
    - Many international jurisdictions assign 10% standardized risk weight to high-quality covered bonds along with Level 1B classification for HQLA purposes (7% haircut)
- Comparison with the most senior securitization exposures

        - Most senior securitization exposures can achieve 15% risk-weight. Since covered bonds are dual-recourse instruments standardized risk weights for covered bonds should be lower than the securitization exposures
        - Current differential in the risk-weight of securitization structures versus covered bonds is leading to some banks to prefer to invest in securitization structures over covered bonds, which may not align with the economic risk view
    - Strong credit characteristics of covered bonds:
        - High-credit quality considering dual recourse nature of the product
        - Proven liquidity, including during time of market stress events
        - Central bank repo eligibility in many jurisdictions
        - Global investor following
        - Long history as an established asset exhibiting strong performance through periods of stress
        - Shorter tenors, typically 3 to 10 years, reducing interest rate risk for investors
        - Bullet structures with no negative convexity (one year maturity extension in the soft bullet structures is only applicable in the case of issuer default)
    - Increase investment options for small and medium sized banks
        - Clarifying standardized risk-weighting for covered bonds will increase investment options for banks that do not have resources to perform sophisticated analysis
    - Level the playing field for the US institutions with international banks
        - This is especially important for US banks that are active in the international markets where local regulators assign 10% standardized risk weight to high-quality covered bonds and bonds are repo eligible with local central banks as well as classified as Level 1B for HQLA purposes
        - Greater diversity in HQLA assets
        - Allows for greater liquidity portfolio optimization while reducing risk and cost
    - Supporting US capital markets with growth in USD denominated covered bond issuance

- **Use of credit ratings can be avoided by assigning same standardized risk weight as the local regulator of the covered bond issuer. This would be simple to implement and lead to more international harmonization.**

- **Evaluation of structural and legal safeguards and / or objective covered pool characteristics can be used to differentiate the credit quality of covered bonds without referring to ratings**
    - A set of structural and legal features can be used to determine if a covered bond qualifies for preferential capital treatment. These features could include:
        - Issuance under a robust covered bond legal framework, with statutory asset segregation and dual recourse to the issuer and the cover pool
        - Presence of special public supervision, ensuring ongoing regulatory oversight of the program by a competent authority
        - Transparency and disclosure requirements, including regular and standardized reporting to investors
        - Clearly defined liquidity and maturity management rules within the program

    - These safeguards are designed to ensure continuity of payments and legal enforceability through issuer stress or resolution, materially reducing loss severity relative to other forms of bank funding

- Objective covered pool characteristics – directly reflect loss-mitigation capacity of a covered bond program
    - Cover pool composition, with a focus on high quality assets such as prime residential mortgages
    - Conservative loan to value constraints, supported by robust and regular property valuation standards
    - Minimum over collateralization requirements, with clear rules governing the maintenance and potential reduction of OC
    - Program liquidity buffers, designed to mitigate refinancing and maturity mismatches in stressed market conditions

These factors directly reflect the loss mitigation capacity of a covered bond program and offer regulators a way to differentiate risk without reference to external credit ratings.

Recommend 10% standardized risk-weighting

The current US treatment of covered bonds is significantly more conservative than the Basel Committee and Banking Supervision ("BCBS") and other international jurisdictions. International treatment better reflects the credit quality, proven liquidity, and the historical resilience of covered bonds through periods of stress. Covered bonds have a long history, and it has been reported that there has never been a loss incurred by investors from non-payment of interest or principal at maturity[1].

Regulatory treatment for high-quality covered bonds in the jurisdictions with most active issuers is universally a 10% risk-weighting and Level 1B classification for HQLA purposes. A tangible example of the positive evaluation of covered bonds is they are central bank repo-eligible in many jurisdictions, a designation typically reserved only for only the highest-quality assets.

Covered Bond Risk-Weight and HQLA Treatment

Jurisdiction	Highest Quality Risk Weight	Central Bank Repo Eligible?
Australia	10%	Yes
EAA	10%	Yes
South Korea	10%	Yes
Singapore	10%	Yes
Switzerland	10%	Yes
UK	10%	Yes

Despite the high-quality nature of covered bonds, US institutions do not invest in covered bonds due to the unfavorable risk weighting and lack of HQLA classification, limiting an important avenue of diversification available to international institutions. Diversification which is becoming increasingly valuable to US banks given the recent focus on HQLA portfolios.

Conclusion

Covered bonds are a large, established, and high-quality asset class with a long history of safety and performance. In recognition of this alignment with the objectives mitigating liquidity risk, many international jurisdictions assign 10% standardized risk weight to high-quality covered bonds and bonds are repo eligible

[1] Source: ECBC European Covered Bond Factbook, September 2024 Edition – p. 94 FactBook-2024_web.pdf (hypo.org)

with local central banks as well as classified as Level 1B for HQLA purposes.
This treatment helps support covered bonds as a key component of international institutions' liquidity portfolios providing a much-needed diversification in sourcing high-quality assets.

Alignment of the US treatment of covered bonds with international standards would place US institutions on a level playing field with international institutions, further bolstering US institutions competitiveness on the global stage.

Respectfully,

ROYAL BANK OF CANADA

Jason Drysdale
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