

ANONYMOUS

Proposal and Comment Information

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RE: Regulatory Capital Proposed Rules: 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, RIN 1557-AF52; FRB Docket No. 1887, RIN 7100-AH20; FDIC RIN 3064-AF29]; and

Regulatory Capital and Standardized Approach for Risk-Weighted Assets [OCC Docket ID OCC-2026-0034; FRB Docket No. R-1888, RIN 7100-AH21; FDIC RIN 3064-AG23]

This comment letter is submitted by an interested citizen in response to the joint notice of proposed rulemaking regarding the risk-weighted asset (RWA) calculations for category I and II banking organizations as well as those that will be subject to the revised standardized approach. On March 19, 2026, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the "Agencies") issued two notices of proposed rulemaking. I appreciate the opportunity to comment on these proposals which make various improvements to the risk sensitivity of the RWA calculations relative to both the current rule and the 2023 proposal. There are, however, several aspects of the proposals that the Agencies should further clarify or adjust as well as other areas that the Agencies should retain as proposed. The letter below provides six comments made with the goal of supporting a capital framework that better aligns the risk-based capital calculations with the actual credit risks of a banking organization, while promoting a transparent and consistent calculation across firms and exposures.

By way of background, I have worked at multiple financial institutions with a primary focus on capital policy issues, particularly in the area of RWA. At these institutions, I have provided interpretive guidance related to the 2013 rule, built standardized approach RWA calculation systems, consulted on process improvements, and advocated for changes to the capital framework in industry forums. I have chosen to submit this letter as an anonymous private

citizen for fear of retribution from my current and any future employer. Please do not let my choice of an anonymous submission discount the comments below.

Comment 1. This comment responds specifically to Question 39 of the NPR, which asks whether the use of unique CUSIPs is an appropriate measure of (N).

The NPR formula for repo-style transactions (RSTs) and eligible margin loans (EMLs) introduces two significant structural changes relative to the current U.S. approach: (1) netting of haircut-weighted exposures across instruments and (2) a mechanical diversification factor, (N). These changes are an improvement relative to the current collateral haircut approach (CHA). However, additional changes to the diversification factor (N) should be considered to better align the risk sensitivity of the calculation with the actual limit of diversifiable risks.

As currently written, two mechanisms limit the diversification benefit provided by (N): first, only the square root of (N) enters the calculation; second, a security must exceed a materiality threshold (10 percent of the largest (E_s) in the netting set) in order to count toward (N). However, by basing diversification primarily on unique CUSIPs, the proposed framework does not account for securities issued by the same counterparty or securities that are otherwise highly correlated. Corporations frequently issue multiple classes of equity securities, as well as debt securities with different issuance dates and maturities, each of which would possess a unique CUSIP despite exhibiting highly correlated market behavior.

Additionally, requiring a CUSIP to contribute toward (N) effectively excludes cash collateral from receiving any diversification recognition. Cash is the most effective form of credit risk mitigation, with the least amount of credit or liquidity risk. Cash should not be penalized relative to securities subject to market and liquidity risk. While it could be argued that the credit risk mitigation benefits of cash are appropriately recognized because it carries a zero percent haircut within both the gross and net exposure measures. However, because of this zero percent haircut cash does not provide any offsetting benefit against non-cash securities, under the net calculation. As a result, certain non-cash collateral structures may receive lower capital requirements than economically comparable structures collateralized with cash.

From an academic standpoint, portfolio diversification theory suggests that the majority of diversification benefits are realized once approximately 20–50 independent securities are included within a portfolio.¹ The current NPR framework permits (N) to increase materially beyond this range. As a result, the proposal may grant diversification benefits beyond what is supported by longstanding academic research and beyond what is realistically representative of diversifiable risk.

¹ See, e.g., Evans, J.L. & Archer, S.H. (1968), "Diversification and the Reduction of Dispersion: An Empirical Analysis," *Journal of Finance* 23(5), 761–767; Elton, E.J. & Gruber, M.J. (1977), "Risk Reduction and Portfolio Size: An Analytical Solution," *Journal of Business* 50(4), 415–437; Campbell, J.Y., Lettau, M., Malkiel, B.G. & Xu, Y. (2001), "Have Individual Stocks Become More Volatile? An Empirical Exploration of Idiosyncratic Risk," *Journal of Finance* 56(1), 1–43.

Taken together, the interaction of haircut netting, treatment of cash collateral, and an uncapped (N) factor could create incentives for firms and their hedge fund counterparties to structure netting sets in ways that reduce capital requirements for large and complex RSTs and EMLs. To mitigate potential risks arising from the under-collateralization of these transactions, the following changes should be considered:

1. Cash should be treated as contributing an (N) value of 1, provided it otherwise satisfies the materiality requirements applicable to (N). This would provide additional recognition for the risk-mitigating benefits of cash collateral.
2. The Agencies should provide firms with an option to calculate (N) as either unique CUSIPs with a maximum value of 100, or as the number of individual issuers of the underlying securities. A cap on (N) would provide a comparatively simple and operationally efficient solution that is materially above the range supported by academic diversification research. While more sophisticated firms could opt for the more risk-sensitive approach, which would link diversification to the actual security issuer. Lastly, if Treasury market functioning and central clearing considerations are relevant policy objectives, sovereign securities assigned a zero percent risk weight could be excluded from the cap. The identification of both sovereign issuers and risk weights are necessary under the current and proposed approaches.

Lastly, regarding (N), the Agencies should provide a clarification related to the CHA calculation regarding collateral included in term repo netting sets through the market risk framework. The 2023 industry comment letter submitted by ISDA and related trade associations stated that including the securities received leg of term repo-style transactions within market risk capital calculations would be “practically unworkable.” The Agencies should clarify whether such securities would nonetheless remain eligible for inclusion within the calculation of (N) under the proposed RST and EML framework. Similar structural concerns identified by industry regarding the incorporation of collateral securities into portfolio-based market risk frameworks may also apply to the proposal’s diversification factor (N).

Adopting the proposals above would better link the proposed CHA with the academic support for risk diversification while limiting any additional complexity or burden introduced into the calculation.

Comment 2: This comment responds to Question 42 regarding the advantages and disadvantages of retaining the Internal Models Methodology (IMM).

I support the Agencies' proposal to remove IMM from the risk-based capital framework. The proposal appropriately advances the objectives of transparency, comparability, and consistency in regulatory capital requirements.

Retaining the IMM has two significant disadvantages. First, IMM is an opaque calculation methodology which can produce results that are difficult to compare across banking organizations. Second, even where institutions are subject to common regulatory standards, firms may employ different modeling assumptions, calibration approaches, historical datasets, stress periods, and governance practices. As a result, economically similar exposures may receive materially different capital treatment depending upon the modeling choices of the institution rather than the underlying risk of the exposure.

The Agencies have also proposed a broader movement toward standardized approaches throughout the capital framework. Retaining IMM would preserve a significant model-based exception within a framework that otherwise seeks to improve consistency across institutions. Eliminating IMM would ensure that exposures such as EMLs, RSTs, and derivatives are measured using a common methodology rather than through institution-specific internal models.

In addition, IMM is generally available only to the largest and most complex banking organizations. As a practical matter, the methodology creates differences in regulatory capital treatment that are unavailable to most institutions. While model-based approaches may provide additional risk sensitivity, that benefit should be weighed against the reduced comparability, transparency, and accessibility of the resulting capital framework.

Lastly, the Agencies' proposal to eliminate IMM is also consistent with the rationale articulated during the 2013 capital rulemaking. In adopting the standardized approach framework, the agencies stated that they had "*concluded that the increased complexity and limited applicability of these models-based approaches is inconsistent with the agencies' overall focus in the standardized approach on simplicity, comparability, and broad applicability of methodologies for U.S. banking organizations.*"² The same considerations support the removal of IMM from the risk-based capital framework today. While IMM may provide additional risk sensitivity in certain circumstances, that benefit should be weighed against the increased complexity, reduced comparability, and institution-specific outcomes that result from model-based approaches.

If the Agencies ultimately decide to retain IMM within the risk-based capital framework, they should provide additional support for why existing and proposed standardized approaches remain insufficiently risk sensitive to appropriately capture counterparty credit risk exposures. Over the past decade, the Agencies have implemented a series of reforms intended to improve the risk sensitivity of standardized counterparty credit risk calculations. Most notably, the current framework replaced the Current Exposure Method with the standardized approach for counterparty credit risk (SA-CCR) for derivative transactions, and the current proposal would introduce significant revisions to the CHA for RSTs and EMLs, including haircut netting and cross-product netting recognition. Collectively, these changes represent a substantial effort to improve the measurement of counterparty credit risk through standardized methodologies.

² 78 Fed. Reg. 62110 (Oct. 11, 2013)

Accordingly, if IMM is retained, the Agencies should explain why these existing and proposed enhancements remain insufficient to capture the risks associated with derivatives, repo-style transactions, eligible margin loans, and other counterparty credit risk exposures. Such an explanation would help clarify the specific risk dimensions that the Agencies believe can only be captured through institution-specific internal models and would allow commenters to better evaluate whether the incremental benefits of IMM justify the additional complexity, reduced comparability, and limited applicability associated with model-based approaches.

The Agencies should also consider whether continued use of IMM remains appropriate in other regulatory frameworks. IMM is currently incorporated into several regulations and supervisory measures beyond risk-based capital requirements. To avoid unnecessary disruption, the Agencies could consider a phased transition over a multi-year period for those frameworks. However, the Agencies should proceed with the immediate removal of IMM from the risk-based capital calculation as proposed.

Comment 3: This comment responds to Question 30 regarding the proposed revisions to the definition of a commitment.

I generally support the Agencies' efforts to expand the definition of commitment to capture arrangements that economically function as off-balance-sheet extensions of credit. The proposal appropriately recognizes that financing capacity may be available to a client even when a banking organization retains contractual discretion to decline future extensions of credit. However, the proposed definition should be narrowed to include the commitments currently reported as well as any financing available to a client due to the client account being over-collateralized.

As described in the proposal, both the Expanded Risk-Based Approach (ERBA) and the revised standardized approach broaden the definition of a commitment beyond traditional legally binding lending obligations. In particular, the proposal would capture certain arrangements where financing capacity has been communicated to a client, even if the banking organization retains the ability to refuse additional funding. Under ERBA, these arrangements would generally be treated as commitments and assigned a 10 percent credit conversion factor.

While this approach in the current proposals is a reasonable starting point, it is potentially overly broad for the exposures the Agencies intend to capture. Instead, the Agencies should expand the definition to ensure that financing capacity from over-collateralized client accounts is fully captured. Within many collateralized financing businesses, including arrangements used by both retail and sophisticated investors, clients can maintain collateral balances that support borrowing capacity materially in excess of currently funded or financed amounts. As collateral values increase or additional collateral is posted, the amount of financing available to the client increases without a separate underwriting decision or amendment to the underlying agreement.

Although banking organizations frequently retain contractual discretion to refuse additional financing, these arrangements often operate through automated collateral management systems that make financing continuously available when collateral requirements are satisfied. As a practical matter, the availability of financing is frequently determined by collateral sufficiency rather than by a series of discrete lending decisions. Consequently, financing capacity created through overcollateralization may represent a meaningful contingent exposure.

For this reason, the Agencies should consider expanding the definition of commitment to include additional financing capacity that arises through overcollateralization. Such an approach would better align the measurement of commitments with the economic reality of collateralized financing arrangements and would more consistently capture contingent extensions of credit that are available to clients.

At the same time, the Agencies should recognize that these arrangements differ from many other forms of unconditionally cancellable commitments because the financing capacity is supported by collateral. Under the proposal, a 10 percent credit conversion factor would apply to the unfunded commitment, while the credit risk mitigation benefits associated with collateral generally would not be recognized until financing has actually been extended. As a result, the proposal may overstate the risk associated with collateralized financing capacity relative to other forms of unfunded commitments.

Accordingly, if the Agencies expand the definition of commitment to include financing capacity created through overcollateralization, this additional exposure amount should be included in the exposure amount in the CHA. Doing so would allow firms to report the unused commitment, as well as the credit risk mitigation benefits from the collateral, in a way that more accurately reflects business practices. This approach would more accurately reflect both the contingent exposure and the credit risk mitigation provided by collateral, while avoiding unintended incentives for firms to limit excess collateral maintained by clients.

Overall, I support the Agencies' efforts to broaden the definition of commitment beyond traditional lending arrangements. However, the Agencies should consider whether financing capacity created through overcollateralization represents a contingent exposure that should also be captured and, if so, how the associated collateral should be appropriately recognized within the capital framework.

Comment 4: This comment responds to Question 73 regarding the inclusion of defaulted or past due exposures in both the K_G and W parameter components used to calculate K_A under the SEC-SA framework.

I support the Agencies' proposal to retain the current treatment of defaulted and past due exposures within both the K_G and W parameters. Although deterioration in the credit quality of underlying exposures may affect multiple inputs to the SEC-SA framework, these inputs

are designed to capture different dimensions of securitization risk and should not be viewed as duplicative measures of the same risk. These differences are further described below.

The W parameter represents the proportion of exposures within the underlying pool that meet specified nonperforming or distressed criteria. As such, W serves as a pool-level measure of deterioration and captures the concentration of defaulted, delinquent, or otherwise distressed exposures within the securitized asset pool.

Changes in W mathematically would lead to a small increase in K_G , the average capital requirement associated with the underlying exposures, since defaulted exposures carry higher capital requirements. However, K_G and W are measuring different aspects of the underlying pool. K_G is a portfolio-level measure, while W is an exposure-specific measure of the overall percentage of exposures that have already entered a defaulted state. In addition, W directly affects the calculation of K_A through the relationship:

$$K_A = (1 - W) \times K_G + 0.5 \times W$$

The resulting value of K_A influences both the level of required capital and the curvature parameter used within the SEC-SA framework. Through this mechanism, W affects the relationship between the tranche's attachment and detachment points and the loss profile of the underlying pool. As the proportion of distressed exposures increases, the framework appropriately increases the sensitivity of tranche capital requirements to structural features of the securitization. This captures the correlated loss profiles of the typically homogeneous pool of exposures that underlie a securitization exposure

Importantly, the fact that a single deterioration event may affect multiple parameters does not imply that the framework is double counting risk. Credit deterioration within a securitized pool can simultaneously affect several distinct risk dimensions. K_G captures changes in the average risk characteristics of the underlying exposures. W captures the concentration of distressed assets within the pool. K_A and the associated curvature parameter capture how deterioration in the underlying pool interacts with the securitization structure and tranche position.

These distinctions are particularly important in securitizations, where losses are not allocated proportionally across investors. Rather, losses are distributed according to the attachment and detachment structure of individual tranches. As a result, deterioration in the underlying pool may have nonlinear effects on tranche performance that are appropriately reflected through the interaction of K_G , W , and K_A . Lastly, this treatment is consistent with the broader Basel securitization framework, which recognizes that pool-level credit deterioration, tranche subordination, and structural features capture distinct dimensions of securitization risk and therefore appropriately influence capital requirements through separate parameters.

Accordingly, I support the Agencies' proposal and do not believe further adjustments to the treatment of defaulted or past due exposures within the SEC-SA framework are necessary.

Comment 5: This comment responds to the various questions regarding the inclusion of repo-style transactions (RSTs) within qualifying cross-product netting arrangements subject to the standardized approach for counterparty credit risk (SA-CCR) calculation.

I support the Agencies' decision to calculate RWA for qualifying RSTs through the SA-CCR calculation when eligible to be included as part of a cross-product netting. To the extent that a qualifying cross-product netting agreement permits legally enforceable netting across multiple transaction types, a unified exposure measurement framework may provide a more accurate assessment of the risks present within the netting set than separate calculations performed in isolation.

However, the Agencies should provide additional clarification regarding how RSTs are intended to operate within the SA-CCR framework. SA-CCR was developed for derivative transactions and contains numerous definitions, asset-class assignments, and risk-factor treatments that were designed specifically for derivative contracts. The use of the SA-CCR calculation for RSTs raises several implementation questions that should be addressed in the final rule to promote consistent application across banking organizations.

First, the Agencies should clarify how the deliver and receive legs of an RST should be treated for purposes of asset-class assignment. Every RST contains both a deliver leg and a receive leg, and in many transactions one side of the transaction consists of cash. Section 114(a)(2)(i)(A) could indicate that the Agencies may want the banking organizations to treat each leg of a repo as a separate transaction. If this is the intent, the Agencies should clarify whether the cash leg should be treated as a separate instrument, an exposure leg, or solely as collateral supporting the overall RST netting set. If the cash leg is treated as a separate instrument or exposure leg, the Agencies should further explain how that treatment affects the determination of the primary risk factor associated with the transaction.

Second, the Agencies should clarify the treatment of security-for-security transactions. In circumstances where both legs of an RST consist of securities, it is unclear whether the transaction should be viewed as a single exposure, two separate exposures, or whether the interaction between the two legs would result in a basis-risk derivative within the SA-CCR calculation as defined by 2. Additional guidance would improve consistency across firms and reduce the potential for divergent interpretations.

Third, the Agencies should provide additional support for the proposed treatment of RSTs involving equity securities that would otherwise be subject to the equity exposure calculations within SA-CCR. Section 114(a)(2)(i)(D) excludes non-market risk equity-related transactions within an RWST from the equity exposure calculation. The proposal preamble does not provide a clear risk-based rationale for treating these transactions differently from other equity-linked exposures. The Agencies should explain the basis for this distinction and how it is consistent with the broader objectives of the SA-CCR framework.

Fourth, the Agencies should address how commercial end-user (CEU) designations are expected to apply when RSTs are incorporated into a derivative-based framework. A counterparty for the purposes of a derivative transaction may qualify as a CEU because it uses those derivatives to hedge commercial risks. However, since RSTs generally provide financing or facilitate access to securities instead of providing a way for counterparties to hedge business related risks. As a result, the Agencies should clarify how banking organizations should handle circumstances where a counterparty would be classified as a CEU under one set of transactions but treated differently for another set of transactions when all transactions are under the same cross-product netting agreement.

One approach the Agencies should consider to standardize derivative asset-class assignments for RSTs incorporated into the SA-CCR calculation is to leverage the existing 10-day supervisory haircut framework which is already used for repo-style transactions. While the haircut framework was originally designed for collateral and exposure measurement purposes, it incorporates distinctions based on collateral type, issuer characteristics, and risk profile that may provide a more natural basis for differentiating interest-rate-sensitive exposures from credit-sensitive exposures. Such an approach could improve consistency between the treatment of RSTs under the collateral haircut framework and their treatment within SA-CCR.

In summary, because the SA-CCR calculation was not originally developed for RSTs, additional guidance regarding asset-class assignment, treatment of transaction legs, security-for-security transactions, equity-related exposures, and CEU status would materially improve the consistency and transparency of implementation across banking organizations.

Comment 6: This comment responds to the question regarding whether eligible margin loans (EMLs) should be included within qualifying cross-product netting sets.

I support the Agencies' proposal to exclude EMLs from cross-product netting sets. The proposed treatment appropriately balances the objectives of recognizing legally enforceable netting arrangements while maintaining a standardized, transparent, and comparable framework across banking organizations.

First, EMLs differ materially from the other transaction types that are eligible for inclusion within cross-product netting sets. Repo-style transactions and derivative contracts generally rely upon standardized legal frameworks, market conventions, and exposure measurement methodologies. By contrast, EMLs are frequently bespoke financing arrangements with terms that vary across counterparties, products, and institutions. Margin requirements, collateral eligibility standards, financing terms, and client-specific arrangements may also differ materially from one banking organization to another, depending on the banking organization's risk tolerance, strategic objectives, and access to bank financing (i.e. deposits).

As a result, including EMLs within cross-product netting sets could reduce comparability across firms by introducing highly customized financing arrangements into a framework otherwise centered on more standardized transaction types. The Agencies' decision to exclude EMLs therefore supports a more consistent and transparent approach to exposure measurement.

The Agencies should also clarify the implications of any future decision to include EMLs within cross-product netting sets. In particular, the proposal does not specify whether inclusion within a cross-product netting set would require EMLs to be incorporated into the SA-CCR framework itself. Given the location of this question within the proposal, it is unclear whether such treatment was contemplated.

If EMLs were ultimately incorporated into the SA-CCR calculation, many of the implementation questions discussed elsewhere regarding RSTs would become relevant to EMLs as well. The Agencies would need to establish clear guidance regarding asset-class assignment, treatment of collateral, exposure measurement, and interaction with other components of the counterparty credit risk framework. Absent such guidance, inclusion of EMLs could introduce additional complexity and reduce consistency across institutions.

Accordingly, I support the Agencies' proposal to exclude EMLs from cross-product netting sets and believe that the proposed treatment is consistent with the broader objective of maintaining a transparent, standardized, and comparable regulatory capital framework.

Conclusion

In conclusion, I appreciate the Agencies' efforts to improve the risk sensitivity, consistency, and transparency of the regulatory capital framework through these proposals. The changes contained in the proposals represent meaningful progress relative to both the current framework and the 2023 proposal. At the same time, several aspects of the proposals would benefit from additional clarification or targeted revisions to ensure that capital requirements remain appropriately aligned with underlying economic risks while avoiding unnecessary complexity and unintended incentives. The recommendations provided in this letter are intended to support those objectives by promoting a framework that is risk-sensitive, operationally practical, and consistently applied across institutions. I appreciate the opportunity to comment and encourage the Agencies to consider these recommendations as they finalize the rulemaking.