

TWK ADVISORS LLC, THOMAS KILLIAN

Proposal and Comment Information

Title: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets, R-1888

Comment ID: FR-2026-0008-01-C186

Submitter Information

Organization Name: TWK Advisors LLC

Organization Type: Company

Name: Thomas Killian

Submitted Date: 06/16/2026

Comment letter attached

[Via Electronic Mail:](#)

June 16, 2026

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC, 20551
Docket Number: R-1888; RIN 7100-AH21

Jennifer M. Jones, Deputy Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429
RIN 3064-AG23

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219
Docket ID: OCC-2026-0034
RIN 1557-AF49

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

Dear Sir or Madam:

On behalf of TWK Advisors LLC, I am responding to the Notice of Proposed Rulemaking ("NPR") by the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Comptroller of the Currency ("OCC"), and Federal Deposit Insurance Corporation's ("FDIC") (collectively, the "Agencies") on the Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets ("Revised SA").¹

TWK Advisors LLC is an advisory and consulting firm with a focus on the financial services sector in the United States. This letter has been prepared from the perspective of an experienced

¹ Notice of Proposed Rulemaking - Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets. 91 Fed. Reg. 15332 (Mar. 27, 2026).

practitioner in the financial sector with over 47 years of banking and consulting experience during which time I completed transactions aggregating more than \$20.5 billion in value encompassing a wide variety of capital markets and advisory transactions. I advised the U.S. Treasury on the \$9 billion Emergency Capital Investment Program and the FDIC in the resolution of multiple problem banks. In addition, I published more than 25 industry research reports and comment letters covering complex regulatory and accounting considerations such as CECL, Basel III, TLAC, and the Bank Merger Act that impact bank and non-bank financial institutions. Most recently, in December 2024, I co-authored along with Cadwalader and KPMG, a handbook for credit risk transfers for U.S. Banks.²

We support the Agencies' objectives to strengthen capital and enhance risk sensitivity. However, the NPR does not recognize the risk-transfer benefits of eligible synthetic securitizations for loan concentration metrics despite alignment with the Revised SA framework. Clarification is needed to recognize that eligible synthetic securitizations can be used as a valid credit risk mitigation strategy to reduce CRE loan concentration risk.

Indeed, the Basel Committee's February 2026 publication on Synthetic Risk Transfers noted that "credit risk management considerations can also be important factors in bank issuers' decision-making process. In some cases, banks have issued SRTs without the primary objective of obtaining capital relief. Instead, many bank issuers consider SRTs as part of a broader toolkit to actively manage credit risk alongside credit insurance, loan sales, and traditional securitization. For example, SRTs can be used to reduce risk exposure to a specific sector or asset class, or counterparty relative to a bank's established concentration limits in those areas, thereby increasing lending capacity to that sector or asset class without breaching risk limits. Moreover, because SRTs do not require asset sales, they allow banks to retain customer relationships and avoid realizing mark-to-market losses."³

While U.S. banks could get CRE concentration relief by selling loans outright or executing a traditional securitization, there are many reasons why a synthetic securitization would be preferred including: retaining customer relationships, avoiding potential loss on sale of loans with below market yields, and avoiding reduction in net interest income from reducing the loan portfolio. This could be particularly important for regional and community banks that have significant CRE exposure but may not have the scale to efficiently execute a large traditional securitization efficiently.

² Credit Risk Transfers (CRTs) A Handbook for U.S. Banks, Cadwalader, Wickersham & Taft LLP, KPMG LLP, and TWK Advisors LLC, December 2024.

³ Basel Committee on Banking Supervision. Synthetic Risk Transfers. February 2026. Page 6.

The proposed scalable framework described herein would:

- Reflect the evolution of the regulatory framework by permitting banks, for CRE concentration risk purposes, to obtain recognition for the risk-reducing effects of eligible synthetic securitizations under the risk-based capital rules.
- Promote risk-sensitive supervision by enabling supervisory assessments of CRE concentration to reflect net credit exposure, rather than gross exposure, where a banking organization has transferred credit risk through an eligible synthetic securitization.
- Establish parity between (i) CRE exposures that have been removed from the balance sheet through a GAAP true-sale cash securitization and (ii) CRE exposures whose credit risk has been transferred through an eligible synthetic securitization.
- Align the Interagency Guidance with the OCC’s Comptroller’s Handbook, “Concentrations of Credit” (Oct. 2020), which recognizes the purchase of credit derivative protection as a useful tool for managing concentration risk.⁴

With this comment letter, we welcome the opportunity to be a constructive contributor to the effort to incorporate proposed changes to the standardized approach applicable to all banks other than those required to or elect to adopt the expanded risk-based approach (“ERBA”).⁵ The Revised SA generally retains the existing definitions of traditional securitization and synthetic securitization under the current capital rule except for revising the definition of synthetic securitization to include prepaid credit protection arrangements (“PPCA”) and introducing technical modifications to the definitions of traditional securitization and synthetic securitization that are intended to clarify the existing scope of exposures subject to the securitization framework.

The NPR includes numerous questions requesting additional clarifications needed for the use of eligible synthetic securitizations. While these proposed changes to the definition of synthetic securitization make clear the regulatory intent to allow use of eligible synthetic securitizations for capital and risk management, they do not address the application of eligible synthetic securitizations to provide risk reduction for loan concentration. Loan portfolio concentrations have long been identified by the Agencies as a potential source of credit risk to U.S. banks. Joint

⁴ The handbook states that “[t]here are many useful strategies for managing concentration risk. ... These strategies include buying credit derivative protection (e.g., default or total return swaps on individual transactions or a pool).” See pp. 11-12.

⁵ Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoptions for Other Banking Organizations. Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets. Regulatory Capital Rule: (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies (March 27, 2026).

Interagency Guidance on CRE Concentration Risk Management, 71 Fed. Reg. 74580 (Dec. 12, 2006) (the Interagency Guidance) was adopted in 2006, prior to Basel II's introduction of an explicit framework for recognizing synthetic securitizations as credit risk mitigants.

For the avoidance of doubt, this revision would not change Call Report (or other regulatory report) treatment of loan balances and would not affect the calculation of any regulatory capital ratio.⁶ Rather, this revision would apply only to the measurement of CRE concentration exposure for risk-management and supervisory-assessment purposes under the Interagency Guidance. However, it may be appropriate to add memo disclosure in the call report to show the reduction in CRE exposure based on the risk transfer transaction.⁷ The intent of this revision is not to relax risk-management standards, but to align concentration-risk measurement with economic risk and risk-transfer mechanisms that have been incorporated into the risk-based capital rules since the Interagency Guidance was adopted. Banking organizations must continue to apply sound underwriting, stress testing, and portfolio monitoring to their CRE exposures, regardless of whether risk protection is obtained. Risk reporting systems and management information systems ("MIS") should provide transparency between gross exposure, protected exposure, and adjusted/net exposure.

2006 Interagency Guidance (Summary)

The Interagency Guidance specifies thresholds for identifying banking organizations with potentially significant CRE concentration risk based on the following measures:

- Loans for construction, land development, and other land loans $\geq$ 100% of **Total Capital**,
or
- Total CRE loans $\geq$ 300% of **Total Capital** or 50% of more growth in the prior 36 months.

These measures are calculated on a gross exposure basis (i.e., the full principal balance of loans held on balance sheet, without adjustment for credit risk transfer).

⁶ Under the existing capital rules, synthetic risk transfer transactions can lead to a reduction in risk weighted assets if the definitional and operational requirements pertaining to synthetic securitization are satisfied.

⁷ Call Report disclosure does not currently capture CRE concentration. This ratio must be calculated from component parts shown in the call report. Since synthetic securitizations do not trigger a GAAP sale of assets, the component parts shown on balance sheet would not provide an accurate measure of net CRE loan exposure. To facilitate better understanding of a bank's CRE risk management, it could utilize schedule RC-R for call report memo disclosure. Such disclosure should include at least four components: recognition of the credit risk mitigant, synthetic securitization treatment, change in risk-weighted assets as a result of transaction, and effect on concentration metrics.

2020 Interagency Guidance (Modification of the Denominator)

With the introduction of the community bank leverage ratio (“CBLR”) in 2019, banks that adopted the CBLR did not recognize subordinated debt as total capital, so the denominator of the CRE concentration ratio was modified in March 2020 to replace total capital with total Tier 1 capital plus total ALLL:

- Loans for construction, land development, and other land loans $\geq 100\%$ of ***Tier 1 capital plus the entire ALLL***, or
- Total CRE loans $\geq 300\%$ of ***Tier 1 capital plus the entire ALLL*** and 50% or more growth in the prior 36 months.

Using these revised formulas for CRE concentration, based on research from S&P Global Market Intelligence, there were 347 U.S. banks that exceeded one of the CRE concentration measures as of year-end 2025.⁸ Clearly, having eligible synthetic securitizations as another tool to help manage CRE loan concentration risk could be helpful to many U.S. banks.

2026 Proposed Language (Modification of the Numerator)

While the denominator of the CRE concentration ratio was modified to accommodate the adoption of the CBLR as a potential capital framework, the measurement of CRE loan exposures on a gross basis in the numerator has not been modified. The Revised SA has now reinforced that eligible synthetic securitizations may be used as an acceptable credit risk mitigation strategy. This requires that the numerator of the CRE concentration ratio be modified to reflect net credit exposure rather than gross credit exposure. The text that follows will review the definition of eligible SRTs, provide a scalable framework for synthetic securitization, describe the boundary conditions for the framework, and provide examples of how this framework would work to reduce CRE loan concentration.

Recognition of Eligible SRTs for Credit Risk Mitigation

For purposes of measuring exposures under this guidance, a banking organization may calculate and maintain an adjusted CRE exposure ratio reflecting the impact of eligible SRTs.

⁸ “Delinquencies flatten out amid signs of commercial real estate recovery,” S&P Global Market Intelligence, March 3, 2026, page 5.

“Eligible SRTs” are: Synthetic risk transfer transactions that (a) meet the definition of “synthetic securitization” under the risk-based capital rules⁹ and (b) satisfy the operational criteria applicable to synthetic securitizations under those rules.¹⁰ Where credit risk transfer is achieved through an eligible SRT, concentration-ratio relief should scale in proportion to the degree of risk transfer, as evidenced by the reduction in the credit risk weight (“RW”) for the unhedged (retained) securitization exposure as calculated under the SEC-SA.

A. Scalable Relief Framework Using Synthetic Securitization

For any CRE exposure, or pool of CRE exposures (in either case, a “CRE portfolio”) for which a banking organization has credit protection in the form of an eligible SRT, the banking organization may reduce the numerator of the relevant CRE concentration ratio by an amount proportional to the reduction in the RW of the senior retained portion of the CRE Portfolio:

$$\text{Numerator Reduction} = \text{Principal Balance of CRE Portfolio} * \text{the Reduction Percentage}$$

where:

$$\text{Reduction Percentage} = \max\left(0\%, \frac{RW_{pre-SRT} - RW_{post-SR}}{RW_{pre-SRT}}\right)^{11}$$

and

- $RW_{pre-SRT}$ is the RW of the CRE portfolio prior to the eligible SRT; and
- $RW_{post-SRT}$ is the RW of the retained senior portion of the CRE portfolio after giving effect to the eligible SRT.

⁹ Under the Revised SA, a “synthetic securitization” is defined as “a transaction in which: (1) All or a portion of the credit risk of one or more underlying exposures is retained or transferred to one or more third parties through the use of one or more credit derivatives or guarantees (other than a guarantee that transfers only the credit risk of an individual retail exposure) or prepaid credit protection arrangements; (2) The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority; (3) Performance of the securitization exposures depends solely upon the performance of the underlying exposures; and (4) All or substantially all of the underlying exposures are financial exposures (such as loans, commitments, credit derivatives, guarantees, receivables, asset-backed securities, mortgage-backed securities, other debt securities, or equity securities).” See 12 CFR 217.2 (Federal Reserve), 12 CFR 3.2 (OCC), 12 CFR 324.2 (FDIC).

¹⁰ The operational criteria for synthetic securitizations include, among other things, the use of a recognized credit risk mitigant (financial collateral, eligible guarantee, eligible credit derivative, or eligible prepaid credit protection arrangement), restrictions on provisions that allow for termination of the credit protection due to a deterioration in the credit quality of the underlying exposures, and a legal opinion as to the enforceability of the credit risk mitigant. See 12 CFR 217.41(b) (Federal Reserve), 12 CFR 3.41(b) (OCC), 12 CFR 324.41(b) (FDIC).

¹¹ The purpose of the max function is to make clear that the reduction percentage cannot be less than 0%. For example, if $RW_{pre-S} = 100\%$ and $RW_{post-SRT} = 120\%$ (a highly unusual scenario), then $\frac{RW_{pre-S} - RW_{post-SRT}}{RW_{pre-SRT}} = \frac{100\% - 120\%}{100\%} = -20\%$. When applying the max function, $\max(0\%, -20\%)$, the result is 0%. Thus, in this case, there would be no reduction to the numerator of the relevant CRE concentration ratio.

B. Boundary Conditions

- Floor: The Reduction Percentage is floored at 0%. If an eligible SRT does not reduce RW (i.e., $RW_{post-SRT} \geq RW_{pre-S}$), the numerator of the CRE concentration ratio is not reduced.
- Cap: The Reduction Percentage is capped at $(RW_{pre-SRT} - 15\%)/(RW_{pre-SRT})$ which reflects the 15% risk weight floor under the SEC-SA. For example, if the pre-SRT risk weight is 95%, the reduction percentage is capped at $(95\% - 15\%)/95\% = 84.21\%$
- Because the SEC-SA proposes to change the risk weight floor to 15% on securitization tranches, the lowest the floor percentage of the portfolio remains in the numerator (i.e., $RW_{post-SRT}$ cannot be less than the risk weight floor under SEC-SA). For example, under SEC-SA's proposed 15% floor, maximum relief is 85% when the pre-SRT risk weight is 100%.

C. Illustrative Examples of CRE Exposure Reduction

Assume (i) the underlying CRE exposures carry a 95% risk weight prior to the eligible SRT and (ii) the retained senior exposure is risk weighted under the SEC-SA as currently proposed in the Revised SA.

Example 1 — Maximum Reduction (SEC-SA Floor)

The risk weight of the senior tranche is 15% under the SEC-SA, which is equal to the proposed risk weight floor under the SEC-SA:

- $RW_{pre-SRT} = 95\%$
- $RW_{post-SRT} = 15\%$

$$Reduction\ Percentage = \max\left(0\%, \frac{95\% - 15\%}{95\%}\right) = 84.21\%$$

$$Numerator\ Reduction = Principal\ Balance * 84.21\%$$

Thus, 84.21% of the CRE Portfolio principal balance is deducted from the numerator and 15.79% remains included.

Example 2 — Partial Reduction

The risk weight of the senior tranche is 40% under the SEC-SA:

- $RW_{pre-SRT} = 95\%$
- $RW_{post-SRT} = 40\%$

$$Reduction\ Percentage = \max\left(0\%, \frac{95\% - 40\%}{95\%}\right) = 57.89\%$$

$$Numerator\ Reduction = Principal\ Balance * 57.89\%$$

Thus, 57.89 % of the CRE Portfolio principal balance is deducted from the numerator and 42.11% remains included.

Example 3 — No Reduction

The risk weight of the senior tranche is > 95% under the SEC-SA:

If the senior tranche of the eligible SRT has an SEC-SA risk weight $\geq 95\%$:

- $RW_{pr} = 95\%$
- $RW_{post-SRT} \geq 95\%$

$$Reduction\ Percentage = \max\left(0\%, \frac{95\% - \geq 95\%}{95\%}\right) = 0\%$$

$$\text{Numerator Reduction} = \text{Principal Balance} * 0\%$$

Thus, no portion of CRE Portfolio principal balance is deducted from the numerator and 95% remains included.

See the Appendix for more detailed examples of the maximum reduction, partial reduction, and no reduction scenarios.

Summary and Conclusion

TWK Advisors LLC supports the Agencies' objectives to strengthen capital and enhance risk sensitivity. The Revised SA codifies the definitional and operational criteria to recognize the risk mitigating benefits of synthetic securitizations. However, the NPR does not recognize the risk-transfer benefits of eligible synthetic securitizations for loan concentration metrics despite alignment with the Revised SA framework. Clarification is needed to recognize that eligible synthetic securitizations can be used as a valid credit risk mitigation strategy to reduce CRE loan concentration risk.

It is anticipated that many banks may want to consider using synthetic securitizations to help reduce loan concentrations including CRE loans. The current measures of CRE loan concentration are based on a gross loan exposure without adjustment for credit risk transfer through synthetic securitization. A modification of the numerator of the CRE loan concentration measurement formula is needed to reflect net exposure.

The proposed clarification states that for purposes of measuring exposures under this guidance, a banking organization may calculate and maintain an adjusted CRE exposure ratio reflecting the impact of eligible SRTs. With the proposed Scalable Relief Framework, there is a reduction to the principal balance of CRE loans based on a reduction percentage with a floor of 0% and a cap of the pre-SRT risk weight minus the SEC-SA floor of 15%.

We would welcome the opportunity for further discussion on the Scalable Relief Framework for synthetic securitization proposed herein. The adoption of this approach would be consistent with Basel Committee guidance and avoid a constraint on the usage of this important risk management tool by recognizing net rather than gross exposure in the numerator of CRE concentration measurement using an eligible synthetic securitization for risk mitigation.

Respectfully Submitted,

Thomas W. Killian

Managing Member

TWK Advisors LLC

Appendix

Pre-SRT: The Bank has \$1000 MM CRE loans which includes \$300 MM construction loans. All the Bank's CRE loans carry a 95% risk weight. The Bank has total Tier 1 capital and ALLL of \$400 MM.

<u>Concentration Ratios</u>	
$\frac{\text{Construction Loans}}{\text{Total Tier 1 + ALLL}} = \frac{\$300 \text{ MM}}{\$400 \text{ MM}} = 75\%$	$\frac{\text{CRE Loans}}{\text{Total Tier 1 + ALLL}} = \frac{\$1000 \text{ MM}}{\$400 \text{ MM}} = 250\%$

Post-SRT: Suppose the Bank then enters into an Eligible SRT under which it purchases credit protection on the junior tranche (i.e., first-loss piece) on \$100 MM of the construction loan portfolio.

→Maximum Reduction Scenario←		
$RW_{pre-SRT} = 95\%$ $RW_{post-SRT} = 15\%$	Reduction Percentage $= \max\left(0\%, \frac{95\% - 15\%}{95\%}\right)$ $= 84.21\%$	Numerator Reduction $= \$100\text{MM} * 84.21\%$ $= \$84.21\text{MM}$
Adjusted Concentration Ratios		
$\frac{\text{Construction Loans}}{\text{Tier 1 + ALLL}} = \frac{\$300 \text{ MM} - \$84.21\text{MM}}{\$400 \text{ MM}}$ $= 54\%$	$\frac{\text{CRE Loans}}{\text{Tier 1 + ALLL}} = \frac{\$1000 \text{ MM} - \$84.21\text{MM}}{\$400 \text{ MM}}$ $= 229\%$	
→Partial Reduction Scenario←		
$RW_{pr} = 95\%$ $RW_{post-SRT} = 40\%$	Reduction Percentage $= \max\left(0\%, \frac{95\% - 40\%}{95\%}\right)$ $= 57.89\%$	Numerator Reduction $= \$100\text{MM} * 57.89\%$ $= \$57.89\text{MM}$
Adjusted Concentration Ratios		
$\frac{\text{Construction Loans}}{\text{Tier 1 + ALLL}} = \frac{\$300 \text{ MM} - \$57.89\text{MM}}{\$400 \text{ MM}}$ $= 61\%$	$\frac{\text{CRE Loans}}{\text{Tier 1 + ALLL}} = \frac{\$1000 \text{ MM} - \$57.89\text{MM}}{\$400 \text{ MM}}$ $= 236\%$	
→No Reduction Scenario←		
$RW_{pre-SRT} = 95\%$ $RW_{post-SRT} = 95\%$	Reduction Percentage $= \max\left(0\%, \frac{95\% - 95\%}{95\%}\right)$ $= 0\%$	Numerator Reduction $= \$100\text{MM} * 0\%$ $= \$0\text{MM}$
Adjusted Concentration Ratios		

TWK ADVISORS LLC

$\frac{\text{Construction Loans}}{\text{Tier 1 + ALLL}} = \frac{\$300 \text{ MM} - \$0 \text{ MM}}{\$400 \text{ MM}} = 75\%$	$\frac{\text{CRE Loans}}{\text{Tier 1 + ALLL}} = \frac{\$1000 \text{ MM} - \$0 \text{ MM}}{\$400 \text{ MM}} = 250\%$
--	---