SYNCHRONY FINANCIAL

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-C187

Submitter Information

Organization Name: Synchrony Financial

Organization Type: Company

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Synchrony Financial's public comment on the rule can be found in the letter uploaded in conjunction with this response.

June 18, 2026

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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; Docket ID OCC-2026-0034, RIN 1557-AF49)

Dear Sirs and Madams:

Synchrony Financial ("Synchrony") appreciates the opportunity to comment on the joint notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (collectively, the "Agencies") regarding amendments to the regulatory capital framework, including revisions to the standardized approach for credit risk and related requirements (the "Basel III re-proposal"). As a Category IV banking organization, Synchrony supports the Agencies' objectives to promote a strong, resilient banking system while maintaining an appropriately risk-sensitive and operationally workable capital framework for a diverse set of institutions and business models.

We also want to recognize and thank the Agencies for the significant work reflected in the re-proposal, including the refinements made in response to input from Synchrony and other industry participants. We appreciate the Agencies' continued engagement and their efforts to achieve an appropriate balance among safety and soundness, financial stability, and the ability of banks to continue supporting consumers and the broader economy. We view the re-proposal as an important step in that direction, and we welcome elements of the revised approach that better align capital requirements with underlying risk and improve clarity relative to the original proposal.

This letter provides recommendations intended to further enhance the calibration and risk sensitivity of the re-proposal as applied to institutions subject to the standardized approach, including Category IV firms evaluating an optional election into ERBA, while also minimizing unnecessary complexity and operational burden. In some areas, we believe additional adjustments would better ensure that the final rule appropriately reflects the risk characteristics of core consumer lending and deposit-related activities, supports consistent implementation, and avoids unintended consequences.

Consistent with these objectives, Synchrony recommends targeted revisions to ensure the final rule is operationally workable, appropriately tailored, and continues to promote risk-sensitive capital measurement for Category III/IV firms—specifically by (i) decoupling the deferred tax asset ("DTA") deduction framework from any election to apply ERBA so Category III/IV firms may retain the current 25% simplified deduction threshold, (ii) maintaining a 0% credit conversion factor ("CCF") for unconditionally cancelable retail credit card commitments (rather than the proposed 10% CCF) to avoid creating a structural deterrent to ERBA opt-in and to reflect actual retail product behavior and established line-management practices, (iii) permitting Category III/IV firms to elect immediate recognition of AOCI in CET1 to simplify transition where AOCI is not material, and (iv) clearly specifying the process and expectations for a Category IV firm to opt into ERBA.

I. Comments Related to Facilitating ERBA Opt-In Through Targeted Adjustments to Structural Disincentives for Category III/IV Banks.

A. The final rule should decouple the DTA deduction framework from any ERBA opt-in so Category III/IV firms can retain the 25% simplified deduction threshold.

Synchrony supports the Agencies' objective of improving risk sensitivity while preserving an appropriately tailored framework for non-Category I and II firms. Consistent with that objective, the final rule should decouple the DTA deduction framework from any election to apply the expanded risk-based approach ("ERBA") and permit Category III and IV firms to retain the current 25% simplified deduction threshold for deferred tax assets arising from temporary differences.

As proposed, a Category IV firm that opts into ERBA would forfeit the simplified 25% framework and become subject to the more restrictive 10%/15% CET1 deduction thresholds designed for the largest and most complex institutions. This linkage is inconsistent with the tailoring principles underlying the 2019 capital simplification framework, because a voluntary change in RWA methodology does not change a firm's systemic footprint, complexity, or underlying risk profile.

This issue is particularly consequential for consumer-focused lenders. DTAs are often a byproduct of traditional lending activities and, under CECL, allowances—and therefore related DTAs—are larger and more responsive to economic conditions than when the 10%/15% thresholds were originally calibrated. In addition, the proposal's removal of the AOCI opt-out would further increase DTAs for Category III and IV firms as DTAs associated with unrealized losses would count toward deduction thresholds, creating the potential for meaningful and unnecessary capital volatility.

Tying the stricter DTA thresholds to ERBA also disincentivizes risk sensitivity by discouraging Category III and IV firms from opting into a more granular framework intended to better align capital with risk. While we understand the Agencies' interest in consistency among

ERBA users, this should be balanced with the statutory and policy mandate of tailoring. The capital framework already accommodates differences in deduction treatment across categories even where firms share elements of the same methodology; the same approach is appropriate here.

This approach is also procyclical: in stress, allowances and DTAs tend to increase, and applying lower deduction thresholds would reduce regulatory capital at precisely the wrong time. These dynamics can also affect capital levels during normal times through stress testing and SCB calculations. Importantly, the capital framework is premised on banks as going concerns, and DTAs are already subject to a stringent "more-likely-than-not" realizability standard under U.S. GAAP, with any non-realizable amounts addressed through valuation allowances—meaning further expansion of DTA deductions for Category IV firms would be unwarranted and overly punitive.

Accordingly, Synchrony urges the Agencies to allow Category III and IV firms to retain the 25% simplified deduction threshold regardless of RWA methodology. If the Agencies do not adopt this recommendation, the final rule should at minimum provide an appropriate phase-in period (similar to the AOCI transition) for applying the stricter DTA deduction thresholds.

B. The Agencies should maintain a 0% CCF for Unconditionally Cancelable Retail Credit Card Commitments (Remove the Proposed 10% CCF)

We also recommend that the Agencies remove the proposed 10% credit conversion factor (CCF) for unconditionally cancelable retail credit card commitments and retain a 0% CCF for those exposures. The Agencies have appropriately structured the ERBA opt-in to encourage adoption of more granular, risk-sensitive approaches by well-capitalized institutions. However, for retail-focused Category IV banks, the proposed 10% CCF on unused retail card commitments can dominate the capital outcome and create a structural deterrent to ERBA adoption—despite no change in the underlying risk profile of the exposures. This outcome is inconsistent with the stated policy objective of promoting more risk-sensitive capital measurement and could inadvertently discourage migration to more sophisticated frameworks.

The proposed 10% CCF is not appropriately calibrated to the risk characteristics of retail credit card lines and is inconsistent with core supervisory objectives of risk sensitivity, operational realism, and incentives aligned with prudent risk management.

1. **Risk sensitivity and behavioral differences versus corporate facilities**. The supervisory rationale that may support a non-zero CCF for certain corporate revolving facilities—where borrowers may draw significantly as financial conditions deteriorate and banks may face practical or relationship constraints in exercising cancellation rights—does not translate to retail credit cards. Retail card portfolios are highly granular, no single customer relationship is economically material in the same manner as a large corporate borrower, and issuers do not face the same relationship-driven impediments to taking credit actions. Applying a uniform 10% CCF to retail card lines therefore reduces risk sensitivity by importing assumptions grounded in different product dynamics.

2. **Operational feasibility and demonstrated ability to cancel in practice.** For retail credit cards, "unconditionally cancelable" is not merely a legal characterization; it is an operational

reality supported by well-established credit risk management infrastructure. Retail issuers routinely and continuously manage exposures by reducing credit limits, closing accounts, and modifying terms pursuant to cardholder agreements. Because these controls can be executed at scale and in near real time, they materially mitigate the likelihood that undrawn lines convert into funded exposure in stress. A 10% CCF assumption overstates exposure conversion relative to the practical, demonstrable ability to manage lines.

3. **Calibration and the absence of supporting empirical justification.** The re-proposal does not provide data demonstrating that a blanket 10% CCF on unconditionally cancelable retail card commitments is warranted by historical utilization and loss experience. In the absence of a product-specific empirical basis, the proposed CCF functions as a generalized add-on rather than a risk-sensitive measure aligned with observed retail credit behavior. For example, ~80% of Synchrony's unused credit card commitments are to customers with FICO scores of 721+, a segment that historically exhibits lower utilization, delinquency and default rates, making the proposed 10% CFF materially overstated relative to the risk of these undrawn exposures.

4. **Potential consequences for consumer credit availability.** A higher capital charge on unused retail card lines can be expected to influence product design and line management, including reductions in offered lines and tighter availability. These adjustments can restrict consumer access to revolving credit and may adversely affect consumers through reduced available credit, with limited corresponding benefit to safety and soundness given the cancellable nature of the exposure.

Accordingly, Synchrony urges the Agencies to maintain a 0% CCF for unconditionally cancelable retail credit card commitments.

C. The final rule should clearly explain how a Category IV firm may opt into the expanded risk-based approach.

As a Category IV bank, Synchrony suggests that the final rule clearly describe the process for a firm to opt into the expanded risk-based approach (ERBA). The proposal does not explain key practical items—such as how the election is made, whether it is public or confidential, and whether the Agencies must review or approve a firm's readiness before it can opt in. Synchrony recommends that the final rule specify any expected process, including the timing, documentation, and standards the Agencies would apply, so firms can make informed decisions and plan implementation efficiently.

II. Comments Related to Other Aspects of the Proposal

A. The Agencies should retain the current, legally binding definitions of "commitment" and "unconditionally cancelable commitment".

The proposals' revised definitions of "commitment" and "unconditionally cancelable commitment," which would remove the long-standing anchor that a commitment is a legally binding obligation to fund, would introduce ambiguity that could sweep in non-binding arrangements across the industry and create unquantified capital impacts and inconsistent supervisory outcomes.

While most of Synchrony's unused commitments are traditional credit card lines that are contractually documented and can be canceled at any time (and therefore are already well understood within the existing framework), the proposed definitional change would nevertheless broaden the scope of what could be treated as a capital-relevant commitment to include a wide range of non-binding "contractual arrangements," creating ambiguity, inconsistent supervisory application, and potentially significant capital impacts that the Agencies did not quantify.

Synchrony therefore urges the Agencies to retain the current, legally binding definition to preserve clarity and comparability in regulatory reporting and capital planning while allowing the broader capital reforms to proceed without introducing unassessed, difficult-to-measure impacts.

B. The Agencies should set an implementation date no earlier than January 1, 2028, to align with the Federal Reserve's ongoing stress test transparency and SCB rulemaking.

Synchrony supports establishing an implementation date of January 1, 2028, for the final rule, with an option for firms to early adopt. A 2028 effective date would provide Category IV firms like Synchrony sufficient time to complete the significant systems, data, reporting, governance, and model enhancements necessary to implement the revised capital framework in a safe and controlled manner and would also better align implementation with the Federal Reserve's capital planning and supervisory stress testing cycle.

This alignment is particularly important in light of the Federal Reserve's ongoing review of comments on its notice of proposed rulemaking on Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL (Docket No. R-1873; RIN 7100-AH05) and the Federal Reserve's related decision—communicated to Synchrony—to maintain Synchrony's SCB at 2.5 percent while that enhanced transparency proposal remains outstanding and final stress test models are not expected to be adopted prior to the 2026 supervisory stress test.

Accordingly, a 2028 effective date would better align firms' implementation timelines with finalized stress testing methodologies used to set binding capital requirements.

C. Category III and IV firms should be permitted to elect immediate recognition of AOCI in common equity tier 1 capital.

Synchrony supports providing Category III and IV firms the option to immediately recognize most elements of accumulated other comprehensive income ("AOCI") in common equity tier 1 ("CET1") capital, rather than requiring firms that previously elected the AOCI opt-out to phase in AOCI recognition over the five-year transition period.

Synchrony's AOCI is typically small and not material relative to our regulatory capital position; accordingly, permitting immediate recognition would have little to no impact on our CET1 ratios, while simplifying implementation and improving transparency by aligning regulatory capital with the economic position reflected in financial reporting. We therefore support making the five-year transition optional and recommend that the final rule include a straightforward mechanism—such as allowing a firm to revoke its AOCI opt-out election—so firms can elect immediate recognition where doing so is operationally efficient and better reflects their balance sheet without creating safety-and-soundness concerns.

III. Conclusion

Synchrony appreciates the Agencies' continued engagement and the significant effort reflected in the Basel III re-proposal. We support the Agencies' objective of strengthening resilience while maintaining a capital framework that is appropriately risk-sensitive, comparable across institutions, and operationally workable for banks with diverse business models. To that end, we respectfully request that the final rule (i) facilitate ERBA opt-in for Category III/IV firms by decoupling the DTA deduction framework from any ERBA election so Category III and IV firms may retain the current 25% simplified deduction threshold, (ii) retain a 0% CCF for unconditionally cancelable retail credit card commitments (removing the proposed 10% CCF) to avoid creating a structural deterrent to ERBA adoption, and (iii) clearly specify the process and expectations for how a Category IV firm may opt into ERBA. In addition, we respectfully request that the final rule (iv) retain the existing, legally binding definitions of "commitment" and "unconditionally cancelable commitment," (v) adopt an implementation date no earlier than January 1, 2028, with an option for early adoption, and (vi) permit Category III and IV firms to elect immediate recognition of AOCI in CET1.

We believe these targeted adjustments would improve calibration, reduce unnecessary operational burden and procyclicality, and help avoid unintended consequences for consumer credit availability while preserving safety and soundness.

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We thank the Agencies for considering the recommendations set forth in this letter. If you have any questions, please contact Ana Karina Felix, Senior Vice President, Capital Planning and Stress Testing, at anakarina.felix@syf.com.

Respectfully Submitted,

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Synchrony Financial