PERSISTENCE ANALYTICS GROUP LLC, NEIL OSNATO

Proposal and Comment Information

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

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Submitter Information

Organization Name: Persistence Analytics Group LLC

Organization Type: Company

Name: Neil Osnato

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Persistence Analytics Group LLC appreciates the opportunity to comment on R-1888 concerning regulatory capital and the standardized approach for risk-weighted assets.

PAG supports the agencies' objective of improving the risk sensitivity of capital requirements while maintaining a framework that is sufficiently consistent, transparent, and operationally usable.

Standardized exposure categories are necessary, but broad classifications can conceal material differences in the durability of the economic assumptions supporting an exposure.

Two assets with the same formal classification may differ substantially in:

• revenue and cash-flow durability
• refinancing and maturity dependency
• collateral resilience and valuation sensitivity
• geographic and counterparty concentration
• infrastructure, energy, technology, and supply-chain dependencies
• exposure to regulatory or public-policy changes
• sensitivity to demand failure, project delay, or customer concentration
• correlations that become visible only during stress

PAG recommends that the final rule preserve standardized treatment while ensuring that institutions and supervisors retain sufficient information to identify material assumption and dependency differences within exposure categories.

In particular, the agencies should consider the following principles:

1. Classification should reflect economic substance, not merely legal form, internal booking structure, or product label.

2. Material concentrations and common dependencies should remain visible even when individual exposures receive the same standardized risk weight.

3. Collateral and repayment assumptions should be reassessed when operating conditions, market demand, project schedules, or refinancing conditions change materially.

4. Institutions should maintain transparent data lineage and governance for exposure classification, collateral valuation, and material risk-weight determinations.

5. Acquisitions, new products, system migrations, and significant changes in borrower or collateral characteristics should trigger targeted validation.

6. Simplification should not prevent supervisors from identifying rapid deterioration, correlated exposure, or assumption drift within standardized categories.

The central principle is that standardized treatment should improve comparability without creating false equivalence among exposures whose underlying economic durability is materially different.

Respectfully submitted,

Neil P. Osnato
Founder

Persistence Analytics Group LLC | United Grid
National Security & Infrastructure Risk Analytics
Demand Durability | Grid Stress | Load Integrity

neil@persistenceanalyticsgroup.com

https://persistenceanalyticsgroup.com/

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UEI: D3VYU39H6DX9 | CAGE: 19T34
D-U-N-S: 142849930

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Standardized Risk Weights, Economic Durability, and Assumption Integrity

Comment on R-1888: Regulatory Capital and the Standardized Approach for Risk-Weighted Assets

I. Introduction

Persistence Analytics Group LLC (PAG) appreciates the opportunity to comment on R-1888. PAG supports the agencies' objective of improving the calibration and risk sensitivity of the standardized capital framework while preserving transparency, comparability, and operational usability.

Standardized risk weights are necessary. They allow institutions and supervisors to apply common rules across large and diverse portfolios. The principal measurement risk is that a common category may create the appearance of economic equivalence where the underlying durability of repayment, collateral, demand, and operating assumptions differs materially.

The final rule should therefore preserve standardized treatment while ensuring that material differences in economic substance, concentration, dependency, and deterioration remain visible to institutions and supervisors.

II. Economic Substance Should Govern Classification

PAG recommends that exposure classification reflect economic substance rather than relying solely on legal form, booking structure, product label, or collateral designation. Two exposures may share the same formal category while presenting materially different loss behavior because of differences in:

- revenue and cash-flow durability;
- borrower and customer concentration;
- refinancing and maturity dependency;
- collateral liquidity, valuation sensitivity, and enforceability;
- geographic, sector, and counterparty concentration;
- energy, infrastructure, technology, and supply-chain dependencies;
- sensitivity to demand failure, project delay, policy change, or operating interruption;
- correlations that become visible only during stress.

A standardized framework should not require bespoke modeling for every exposure. It should, however, preserve the ability to identify cases in which the standardized category no longer provides a reasonable representation of the underlying risk.

III. Standardization Should Not Create False Equivalence

The agencies should consider requiring or retaining supervisory visibility into material assumption and dependency differences within standardized categories. Relevant information may include:

- the source and durability of repayment cash flows;
- the degree to which collateral value depends on continued operation or specialized use;
- the concentration of repayment on a single customer, contract, project, market, or public policy;
- the exposure's reliance on refinancing, short-term funding, or favorable market access;
- the presence of common infrastructure, technology, data, energy, or vendor dependencies;
- the rate and direction of change in borrower, collateral, or market conditions;
- the extent to which multiple exposures would deteriorate together under a common shock.

The objective is not to replace standardized risk weights with an internal-model regime. It is to prevent a standardized category from obscuring a material concentration or assumption failure that is decision-relevant for capital adequacy.

IV. Collateral and Repayment Assumptions Require Ongoing Validation

Collateral and repayment assumptions can become stale even when legal documentation remains unchanged. The agencies should encourage periodic reassessment when there are material changes in:

- operating performance or customer demand;
- construction schedules, permitting, or project completion;
- market liquidity or refinancing conditions;
- insurance availability or replacement cost;
- technology, infrastructure, energy, or supply-chain requirements;
- public-policy, regulatory, or contractual support;
- ownership, servicing, or control arrangements.

A risk weight that was reasonable at origination may become less representative when the assumptions supporting repayment or collateral value no longer hold. The framework should support timely escalation before deterioration is fully reflected in default or loss data.

V. Concentration and Common Dependencies

Portfolio diversification can be overstated when exposures that appear separate depend on the same underlying system. PAG recommends that the final framework preserve supervisory visibility into common dependencies across exposures, including:

- shared borrowers, sponsors, customers, or guarantors;
- common geographic or sector exposure;
- shared cloud, payment, custody, servicing, data, telecommunications, or energy infrastructure;
- common public incentives, contractual counterparties, or regulatory approvals;
- correlated collateral values or refinancing channels.

This information is particularly important where individual exposures meet standardized criteria but the portfolio as a whole is vulnerable to a single operational, market, or policy shock.

VI. AOCI and Interest-Rate Risk

The proposal would require Category III and IV banking organizations to recognize most elements of accumulated other comprehensive income in regulatory capital. PAG supports transparent recognition of material valuation changes, while emphasizing that implementation should distinguish temporary market movements from durable impairment without allowing institutions to disregard persistent interest-rate, liquidity, or funding risk.

Supervisory assessment should consider the interaction among unrealized losses, deposit and funding durability, collateral needs, liquidity access, and the institution's capacity to hold assets through stress. The same accounting amount may have different prudential significance depending on the durability of the institution's funding and operating assumptions.

VII. Data Lineage and Governance

The effectiveness of a standardized framework depends on the integrity of the data and classifications that feed it. PAG recommends that institutions maintain clear governance for:

- exposure classification and reclassification;
- collateral valuation and haircut assumptions;

- identification of material concentrations and common dependencies;
- documentation of overrides, exceptions, and management judgments;
- data lineage from source systems through regulatory reporting;
- validation following acquisitions, new products, system migrations, or material changes in business activity.

Simplification should reduce unnecessary complexity, not weaken accountability for the assumptions embedded in capital calculations.

VIII. Recommended Final-Rule Principles

1. Standardized treatment should improve comparability without creating false equivalence among economically different exposures.

2. Classification should reflect economic substance and remain subject to reassessment when material conditions change.

3. Material concentrations and common dependencies should remain visible even when individual exposures receive the same risk weight.

4. Collateral and repayment assumptions should be validated over the life of the exposure, not only at origination.

5. AOCI recognition should be evaluated together with funding durability, liquidity, and the institution's ability to withstand stress.

6. Institutions should maintain transparent data lineage, classification discipline, and governance for material judgments.

IX. Conclusion

PAG supports the agencies' effort to improve the risk sensitivity and consistency of the standardized capital framework. The strongest final rule will preserve common treatment while ensuring that material differences in repayment durability, collateral resilience, concentration, dependency, and assumption integrity remain visible.

Standardization should simplify measurement without simplifying away the conditions that determine whether an exposure will remain sound under stress.

Respectfully submitted,

Neil P. Osnato
Founder
Persistence Analytics Group LLC | United Grid
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neil@persistenceanalyticsgroup.com

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