HSBC, BRYAN ROWE

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-C203

Submitter Information

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Organization Type: Company

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HSBC North America Holdings, Inc., on behalf of itself and its subsidiaries (collectively, "HSBC") provides the attached comments related to the proposed regulatory capital rule.

HSBC

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June 18, 2026

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
Attention: Benjamin W. McDonough, Secretary

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429
Attention: Jennifer M. Jones, Deputy Executive Secretary; Comments / Legal OES

Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, D.C. 20219
Attention: Chief Counsel's Office, Comment Processing

Re: Docket ID OCC-2026-0265, Docket No. R-1887, and RIN 3064-AF29, Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations; and Docket ID OCC-2026-0034, Docket No. R-1888, and RIN 3064-AG23, Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets (collectively, the "Proposals")

HSBC North America Holdings, Inc., on behalf of itself and its subsidiaries (collectively, "HSBC"), welcomes the opportunity to provide the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (together, the "Agencies") with comments on the Proposals.

As a Category IV intermediate holding company of a foreign banking organization with a traditional, client-focused business model, HSBC appreciates the Agencies' proposed revisions to the capital framework and the emphasis on aligning capital requirements with economic risk, avoiding unnecessary complexity, and preserving banks' capacity to provide credit to U.S. households and businesses. The Proposals' tailored approach for smaller and less complex institutions recognizes the distinct risk profile of Category IV firms like HSBC and the important role they play in supporting real-economy lending in the U.S., including to small and mid-sized businesses and individual borrowers.

As part of a global bank, HSBC is also interested in aspects of the Proposals that would support a level regulatory playing field across key jurisdictions to underpin competitiveness, efficient capital allocation, and financial stability. Furthermore, HSBC continues to evaluate the merits of applying the Expanded Risk Based Approach ("ERBA") and hence maintains an interest in the full scope of the Proposals.

HSBC appreciates that the Proposals reflect public feedback received by the Agencies in 2023[1] and recommends the following additional changes to support the U.S. economy:

I. For the risk weights of corporate exposures:
   - Provide Standardized Approach ("SA") firms with the option to apply a more risk sensitive framework for high quality corporate borrowers; and
   - Recalibrate both the SA and ERBA to apply a more risk sensitive framework for high quality corporate borrowers.

II. Calibrate the framework for determining the applicability of Credit Valuation Adjustment ("CVA") by:
   - Increasing the $1 trillion applicability threshold to $5 trillion;
   - Specifying that derivatives which would be exempt from CVA risk capital requirements do not count toward the applicability threshold;
   - Exempting affiliate derivatives used for centralized risk management purposes from CVA risk capital requirements; and
   - Clarifying how the Agencies would evaluate a bank's level of CVA risk for purpose of the exemption process.

III. Not finalize the proposed revisions to the definitions of "synthetic securitization" and "traditional securitization."

IV. Remove the Default Risk Charge ("DRC") for term repo-style transactions included in the market risk framework.

V. Clarify the process for electing to use the ERBA approach.

VI. Adjust the calibration of the Internal Models Approach ("IMA") for market risk.

[1]In particular, HSBC appreciates that the Proposals: (1) extend the phase-in period for the reintroduction of Accumulated Other Comprehensive Income ("AOCI") into regulatory capital to five years; (2) remove the requirement that corporate exposures be "publicly traded" in order to benefit from preferential risk weights under the ERBA; (3) reduce complexity and operational burden by removing the mandatory "dual-stack" capital calculation; (4) eliminate minimum haircut floors for certain securities financing transactions; (5) eliminate the standardized output floor to align with the elimination of most modeled approaches; (6) remove the restrictive "Collateral Agreement" requirement which currently limits the recognition of collateral under the simple approach; and (7) revise the non-modellable risk factor definition and remove the Spearman Correlation profit and loss attribution test for internally modelled desks under the Internal Models Approach ("IMA") for market risk. HSBC urges the Agencies to finalize these features as proposed.

HSBC's recommendations supplement comments submitted by the major U.S. trade associations, including the Bank Policy Institute, American Bankers Association, Institute of International Bankers, Securities Industry and Financial Markets Association, and International Swaps and Derivatives Association, all of which are organizations of which HSBC is a member.

I. For High Quality Corporate Exposures, Allow Standardized Approach Firms to Apply a More Risk Sensitive Approach, and Align the Overall Framework More Closely with Other Jurisdictions

Recommendation: The Agencies should allow SA firms the option to apply more risk sensitivity to the risk weights for high quality corporate borrowers to increase competitiveness with U.S. Global Systemically Important Banks ("GSIBs") and foreign banks from certain jurisdictions. The Agencies should also recalibrate the overall framework for risk weighting high quality corporate exposures to narrow the gap versus other key jurisdictions and help ensure that all regulated U.S. banks can compete effectively in high quality corporate lending.

HSBC provides credit to a range of clients and offers products designed to meet the global banking needs of corporate clients. Internal credit underwriting processes are robust and reflect careful consideration of the risks associated with each credit. HSBC understands that the quality of credits can vary, and its business decisions reflect this variation. A substantial portion of HSBC's corporate client base is internally rated high investment grade; HSBC provides banking services to over 90% of the Fortune 100.

The flat 95% risk weight for corporate exposures under the revised SA does not appropriately allow banks to reflect meaningful differences in corporate borrower risk profiles in pricing and underwriting, especially for high quality corporate borrowers. A flat risk weight across the full range of corporate exposures would harm SA banks that do not choose to adopt ERBA, without meaningfully enhancing the safety and soundness of the U.S. banking system. Similarly, a single risk weight applied across a wide range of obligors may negate incentives to extend credit to stronger borrowers on appropriately differentiated terms and may increase the cost of credit for higher quality corporate borrowers. Including an option for SA banks to apply a differentiated risk-weight for investment grade corporate borrowers under the revised SA will enable more bank capital to be deployed for the extension of credit across the American economy, which will increase economic activity and job growth.

HSBC agrees with Vice Chair Bowman's recent observations[2] that when regulatory requirements become disproportionately burdensome relative to risk, banks may curtail corporate lending, and activity can migrate outside the regulated banking system to nonbanks.

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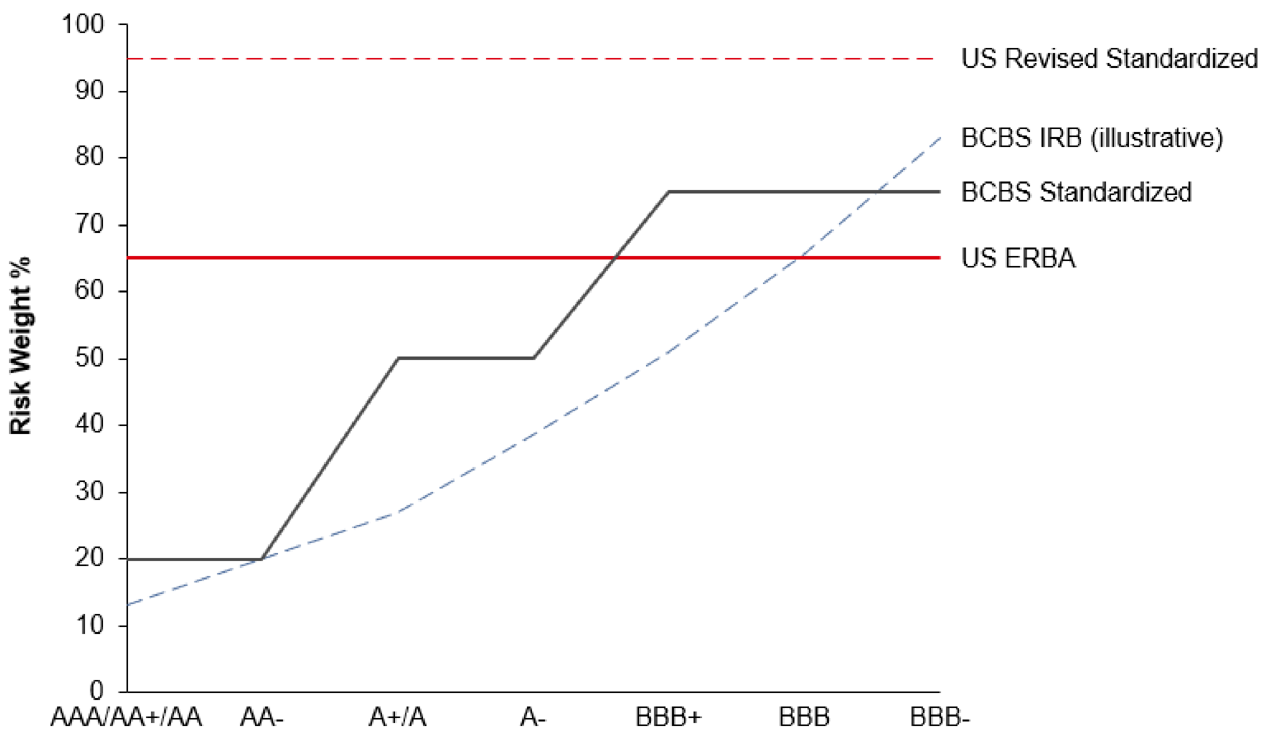
[2] Michelle W. Bowman, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, *When Regulation Reshapes Markets: The Migration of Corporate Lending*, remarks at the Hoover Institution Annual Monetary Policy Conference (Stanford, California), May 8, 2026, available at https://www.federalreserve.gov/newsevents/speech/bowman20260508a.htm

HSBC is also concerned that the divergence in risk weights between the revised SA and the ERBA could shift higher quality corporate lending activity toward the largest banks - institutions which already account for a significant share of systemwide activity and, by virtue of their size and complexity, increase systemic risk. Similarly, lower quality corporate exposures could become disproportionately concentrated in smaller banks, which could run counter to the regulatory objective of promoting stability across the banking system.

In addition, the Agencies should consider recalibrating the proposed risk weights for higher quality corporate exposures under both the ERBA and the SA to allow U.S. banks to remain competitive with their international peers. The chart below provides a comparison of risk weights for high quality corporate exposures under the Proposals against the risk weights for those exposures under the framework prescribed by the Basel Committee on Banking Supervision ("BCBS"). Key jurisdictions, including the United Kingdom, the European Union, and Hong Kong are each ultimately expected to implement standardized and Internal Ratings Based ("IRB") frameworks which are broadly consistent with BCBS.



The risk weights for corporate exposures under the Proposals will make it difficult and costly for regulated U.S. banks, especially smaller U.S. banks using the SA, to lend to the most credit-worthy U.S. businesses, potentially pushing more of this activity into the shadow banking system and introducing more systemic risk by increasing the share of U.S. corporate lending which is beyond the direct purview of the Agencies.

As illustrated above, the flat 95% risk weight under the revised SA is materially higher than the BCBS SA risk weight for highly rated corporate exposures. For the highest quality corporate exposures, the U.S. SA risk weight is more than four times higher than the comparable BCBS risk weight.

HSBC therefore recommends that the Agencies provide SA firms with the option to apply a more risk sensitive framework for high quality corporate exposures, and also recalibrate both the SA and ERBA to apply a more risk sensitive framework for high quality corporate exposures.

II. Align the Credit Valuation Adjustment Applicability Framework with Economic Risk

Recommendation: To better align the CVA applicability framework with economic risk, the Agencies should:

- Increase the $1 trillion applicability threshold to $5 trillion;
- Specify that derivatives that would be exempt from CVA risk capital requirements do not count toward the applicability threshold;
- Exempt affiliate derivatives used for centralized risk management purposes from CVA risk capital requirements; and
- Clarify how the Agencies would evaluate a bank's level of CVA risk for the exemption process.

HSBC provides U.S clients with various over-the-counter ("OTC") derivative products, including interest rate and foreign exchange derivatives, which enable U.S. businesses to better manage their risks and support the U.S. economy. Although HSBC supports the Agencies' objective of ensuring that capital requirements appropriately capture material CVA risk, the proposed applicability framework would scope several banks into the CVA capital requirement even where those banks contribute limited CVA risk to the U.S. banking system.

This outcome appears to result from both (i) the calibration of the applicability threshold at $1 trillion of gross OTC derivative notional, and (ii) the overly broad scope of derivative activity that must be included when determining whether the $1 trillion threshold is exceeded. Scoping in banks with limited CVA risk increases regulatory and operational burden and reduces the availability of credit to U.S businesses and individuals, without a commensurate benefit to overall safety and soundness. HSBC recommends the following changes to ensure the right banks are scoped into the CVA requirement.

First, the Agencies should increase the applicability threshold from $1 trillion to $5 trillion. Based on FR Y-9C data, a $1 trillion threshold would capture approximately 98% of gross OTC derivative notional across the banking system and would require 14 banks to hold regulatory capital against CVA. By contrast, a $5 trillion threshold would still capture approximately 94% of gross OTC derivative notional across the banking system and would require only 8 banks to hold capital against CVA. Adjusting the threshold would more efficiently focus the CVA capital requirement on the firms and portfolios that drive the vast majority of systemwide CVA exposure, while reducing unnecessary burden for banks with comparatively limited CVA risk.

Second, the Agencies should more closely align the portfolio of derivatives used to determine whether a bank exceeds the applicability threshold with the definition of a CVA risk covered position. If a specific derivative would be exempt from CVA risk capital requirements for an in-scope bank, that derivative should not count toward the applicability threshold. This alignment would improve the coherence of the framework and reduce the likelihood that banks are brought into scope based on activity that does not generate CVA capital requirements.

Third, the Agencies should exempt intergroup or affiliate derivative transactions from CVA risk capital requirements. Affiliate derivative transactions used for centralized risk management purposes are typically not captured by Accounting CVA or internal CVA risk management because they are mirrored, back-to-back transactions. In addition, the CVA risk capital charge is intended to capture changes in credit spread risk. Credit spread risk is distinct from counterparty credit risk, which is intended to capture the risk of counterparty default. The counterparty credit risk of affiliate derivative transactions is actively managed through a robust risk management and governance process that is comparable to third party derivative transactions. However, CVA risk on individual intragroup entities cannot be properly hedged due to the absence of liquid single-name CDS markets on internal affiliates. Additionally, proxy hedging using parent CDS creates wrong-way considerations, as the respective banking group is effectively purchasing protection on itself.

Fourth, the final rule should provide additional clarity regarding how the Agencies would evaluate a bank's level of CVA risk for purposes of the exemption process. For example, the Agencies could consider how short-dated or long-dated a bank's portfolio is and review historical P&L volatility due to CVA. Clearer standards and expectations would promote consistent supervisory outcomes, reduce uncertainty, and allow banks to plan and invest appropriately in systems and controls commensurate with their actual CVA risk.

III. Do Not Amend the Definitions of "Synthetic Securitization" and "Traditional Securitization"

Recommendation: The Agencies should not revise the definitions of "traditional securitization" and "synthetic securitization".

HSBC engages in both traditional and synthetic regulatory securitization transactions. Traditional securitization activity allows HSBC to support clients' needs by reducing borrowing costs and increasing the availability of new credit to facilitate economic growth. Synthetic securitization activity allows HSBC to better manage its credit risk by transferring a portion of the risk to third party clients.

HSBC is concerned that the proposed definitional revisions are not supported by a clear rationale demonstrating why the existing definitions are deficient or why the proposed addition of "solely" is necessary to achieve the Agencies' stated objectives. In addition, the mismatch between the preamble's stated intent to address program-wide guarantees and the breadth of the proposed definitions creates interpretive uncertainty and risks unintended reclassification of common securitization structures. Such uncertainty can deter prudent securitization activity and increase costs for end users, without a commensurate safety-and-soundness benefit. Accordingly, HSBC recommends that the Agencies not revise the definitions of "traditional securitization" and "synthetic securitization"

If, however, the Agencies choose to revise the definitions as proposed, the final rule should clarify that transactions which include post-default recovery management features still depend "solely" on the performance of the underlying exposures. This contrasts with features which alter the timing of default by providing additional protection before losses are realized. Recovery management features that function only after a default do not provide investors with an independent source of repayment and do not alter the fact that cash flows prior to default are generated exclusively by the underlying exposures. Furthermore, both the Proposals and the prevailing rules explicitly permit the recognition of credit risk mitigation against securitization exposures, which reflects the notion that certain types of credit enhancement do not disqualify transactions from regulatory securitization treatment.

IV. Remove the Default Risk Charge for Term Repo-Style Transactions Included in the Market Risk Framework

Recommendation: The final rules should provide an explicit exemption from the DRC for term repo-style transactions that a bank has elected to include in its market risk framework.

Term repo markets support core market functioning and liquidity transmission, including in U.S. Treasury and agency markets that are foundational to U.S. businesses, and by extension to households and individual consumers. HSBC engages in term repo-style transactions to fulfill funding needs for clients to support their business activity.

The FRTB DRC should only apply to these transactions if there is clear evidence that they pose a risk, as the bank is not directly exposed to the underlying securities issuer. Moreover, any default risk to the issuer of the collateral is already addressed through supervisory haircuts under the collateral haircut approach within the credit risk framework.

This double counting is not merely a technical issue. Capital requirements that overstate risk for repo-style transactions can increase the cost of secured financing, reduce balance sheet capacity for market intermediation, and create incentives for financing activity to migrate to less regulated market participants - outcomes that are inconsistent with the Agencies' stated objective of aligning capital requirements with economic risk and avoiding unintended consequences for real-economy credit and market resilience.

V. Clarify Aspects of Opting into the Expanded Risk Based Approach

Recommendation: The Agencies should provide additional clarity on certain aspects of the ERBA opt-in framework to allow banking organizations to understand the mechanics and consequences of opting in, and optimize the provision of credit across the American economy.

First, the Agencies should clarify that a banking organization that wishes to opt into the ERBA upon the mandatory go-live date of the final rules will be able to do so.

Second, the Agencies should clarify whether a bank's ability to opt into the ERBA would be subject to any validation by a bank's primary Federal supervisor. If so, the Agencies should provide specifics as to that validation process. This will facilitate a more efficient opt-in process and allow individual banks to plan for and assess the costs and benefits of opting in by reducing expenditure on building or modifying infrastructure, should approval ultimately not be granted.

Third, the Agencies should clarify that banks retain the ability to withdraw a request for a change in approach during the required 12-month waiting period; this will allow banks to adapt more responsively to unexpected changes in market conditions which could call for changes to the bank's overall strategy and business mix.

VI. Further Calibrate the Internal Models Approach

Recommendation: HSBC supports the Agencies' proposed enhancements to the IMA for Market Risk, but recommends further calibration to ensure consistent, risk-sensitive, and implementable outcomes. While HSBC supports the wider industry proposals on IMA, the additional refinements highlighted below should be reflected in the final rule.

First, Type A non-modellable risk factors ("NMRFs") should only be subject to expected shortfall ("ES") and not stressed expected shortfall ("SES"). Type A NMRFs should not be subject to SES because that approach would not appropriately recognize the better data quality of Type A NMRF and the diversification within and across asset classes.

Second, the Agencies should clarify that a banking organization should be able to apply the same 12-month historical stress period used to calculate the internal models capital calculation ("IMCC") for each risk class within the SES calculations to improve consistency and reduce operational complexity.

Third, a banking organization should be permitted - but not required - to consider the maturity of a market risk covered position for purposes of determining the appropriate Liquidity Horizon ("LH") for the position. This approach would allow banks to apply risk-management-aligned LH (e.g. based on hedging strategy and observed market liquidity). A requirement for a banking organization to assign a LH based on maturity would also result in substantial operational burden.

Conclusion

HSBC urges the Agencies to: give SA banks the option to increase the risk sensitivity of risk weights for high quality corporate exposures; calibrate the framework for determining the applicability of CVA; not amend the definitions of "synthetic securitization" and "traditional securitization"; remove the DRC for term repo-style transactions included in the market risk framework; provide more clarity on opting into the ERBA; and, refine calibration of the IMA for market risk. These changes would meaningfully enhance HSBC's ability to serve its U.S. clients and support the U.S. economy.

Thank you for your attention to HSBC's comments on the Proposals. HSBC would welcome the opportunity to provide any additional information that the Agencies may consider helpful.

Sincerely,

/s/ Jason Henderson

Jason Henderson
Chief Executive Officer
HSBC North America Holdings, Inc.
HSBC Bank USA, N.A.