UBS, DAVID WILDERMUTH

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: UBS

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Name: David Wildermuth

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Please find attached UBS’s comment letter.

UBS Americas Holding LLC
Eleven Madison Avenue
New York, New York

www.ubs.com

Board of Governors of the
Federal Reserve System
20th Street & Constitution Ave
NW
Washington, DC 20551

Federal Deposit
Insurance Corporation
550 17th Street NW
Washington, DC 20429

Office of the Comptroller of the
Currency
400 7th Street SW, Suite 3E-
218
Washington, DC 20219

June 18, 2026

Re: Notice of Proposed Rulemaking, Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, Federal Reserve Docket No. 1887 and RIN 7100-AH20, OCC Docket ID OCC–2026–0265, FDIC RIN 3064-AF29

Notice of Proposed Rulemaking, Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, Federal Reserve Docket No. R-1888 and RIN 7100-AH21, OCC Docket ID OCC–2026–0034, FDIC RIN 3064-AG23

To whom it may concern:

UBS appreciates the opportunity to respond to the two notices of proposed rulemaking issued by the Board of Governors of the Federal Reserve System ("FRB"), the Federal Deposit Insurance Corporation (the "FDIC") and the Office of the Comptroller of the Currency (the "OCC," and together with the FRB and the FDIC, the "Agencies") regarding proposed revisions to the risk-based capital requirements applicable to banking organizations.[1]

[1] Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 Fed. Reg. 14,952 (proposed Mar. 27, 2026) (the "ERBA Proposal"); Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15,332 (proposed Mar. 27, 2026) (the "Standardized Approach Proposal", and together with the ERBA Proposal, the "Proposals").

We particularly welcome the Proposals as a meaningful improvement over the Agencies' 2023 notice of proposed rulemaking,[2] reflecting careful consideration of public feedback and making targeted changes that better match capital requirements to actual risk, reduce unnecessary complexity, and fit requirements more appropriately to different types of banking organizations. We support the optionality permitting non-Category I and II firms to continue using the Revised Standardized Approach or elect the Expanded Risk-Based Approach ("ERBA") if better aligned to their business models, which enhances tailoring without sacrificing consistency. We also support replacing the current one-size-fits-all 50% risk weight for prudently underwritten first-lien residential mortgages with a framework that assigns risk weights ranging from 25 to 110% based on the loan-to-value ratio and whether the loan's repayment depends on the property's cash flows, a change that materially increases risk sensitivity and can help banks re-engage in the U.S. mortgage market where appropriate. For institutions subject to market risk capital, the proposed revisions would improve alignment between capital requirements and underlying risks by updating the model-based approach, introducing a standardized market risk approach, and raising the applicability threshold to $5 billion, thereby increasing risk sensitivity and consistency while reducing unnecessary burden.[3] Finally, elements of the revised operational risk framework reflect progress toward recognizing the lower historical loss intensity of certain fee-based activities by scaling net noninterest income and expense from investment management, investment services, and non-lending treasury services by 70% within the business indicator ("BI") and by enhancing transparency and comparability relative to the Advanced Measurement Approach ("AMA").[4]

With these meaningful advances, we have four targeted recommendations to ensure the final rules hew more closely to economic risk and the policy objectives advanced by the Proposals, together with a discussion of how leverage interactions should be evaluated alongside those recalibrations:

1. **Operational risk / BI**: The standardized operational risk requirement under ERBA – which replaces the AMA with a BI calibrated with marginal coefficients of 12, 15, and 18% and scales certain fee-based activities by 70%, alongside granular loss-data collection – warrants recalibration.[5] The proposed BI framework may misalign capital with underlying operational risk by relying heavily on revenue-based proxies that are not consistently predictive across business models.
2. **Commitment definition / CCF expansion**: The proposed expansion of the commitment definition introduces material ambiguity and could capture arrangements that lack legally binding exposure, thereby inflating off-balance sheet capital requirements without a clear risk basis. The flat 40% credit conversion factor ("CCF") for non-unconditionally cancelable commitments and a 10% CCF for unconditionally cancelable commitments under ERBA and related leverage and reporting interactions should be grounded in clearer legal standards and paired with conversion factors that are proportionate to the actual risk of funding.[6]

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[2] *See* Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, 88 Fed. Reg. 64,028 (proposed Sept. 18, 2023).

[3] ERBA Proposal, 91 Fed. Reg. at 14,955–56.

[4] Standardized Approach Proposal, 91 Fed. Reg. at 15,338–42. See also ERBA Proposal, 91 Fed. Reg. at 14,967–94.

[5] ERBA Proposal, 91 Fed. Reg. at 14,957 (raising threshold from $1 billion to $5 billion and basing it on four-quarter averages).

[6] ERBA Proposal, 91 Fed. Reg. at 15,012–13 (describing 70% scaling for investment management, investment services, and non-lending treasury services).

3. **AOCI and pension-related volatility**: The required recognition of most elements of AOCI in CET1 for Category III and IV organizations and for any firm electing to use ERBA, including defined-benefit retirement plan components, with a five-year phase-in, raises design and transition issues.[7] Requiring firms to recognize AOCI fully, including pension-related volatility, could introduce capital variability not directly tied to near-term solvency or credit risk.
4. **CVA framework**: The credit valuation adjustment risk for derivative exposures ("CVA") framework's scope, which is tied to market risk applicability and an activity threshold of $1 trillion average aggregate OTC derivatives gross notional, while excluding cleared and client facing transactions from CVA-covered positions, should be more tightly aligned to positions that actually generate CVA.[8]
5. **U.S. leverage ratio calibration**: We discuss how leverage ratio interactions call for preserving leverage as a backstop and preventing unintended binding effects on low-risk intermediation, particularly when considered alongside the recalibration of other capital requirements under the Proposals.[9]

We also agree with the issues raised and support the solutions offered by the Institute of International Bankers, the Bank Policy Institute, the American Bankers Association, the Financial Services Forum, the U.S. Chamber of Commerce, the Securities Industry and Financial Markets Association, and the International Swaps and Derivatives Association, Inc. in their responses to the Proposals.

1. ERBA's standardized operational risk requirement should be recalibrated

The operational risk outcomes under ERBA may be disproportionate for low-risk, fee-based businesses and out of line with the operational losses firms have actually experienced. The proposal sets risk-weighted assets ("RWAs") for operational risk equal to 12.5 times a business indicator component ("BIC") calculated using income and expense figures from regulatory filings, with coefficients that step up from 12 to 15 to 18% as the BI grows, while adding total operational losses to the noninterest component and reducing the contribution of certain fee-based business lines by 70%. While the 70% scalar is a welcome recognition that fee-based activities generate lower operational losses per dollar of income, it does not fully address the structural overstatement for wealth and asset management models with limited exposure to principal losses and a long track record of low operational losses.[10] The Agencies' own impact analysis shows that operational risk RWAs for activities like investment and wealth management would represent a meaningful share of total RWAs under ERBA despite the limited balance-sheet footprint of these businesses, illustrating how an income-based charge can overstate capital requirements for fee-based activities that generate relatively few operational losses.[11]

The calibration of the BIC relies heavily on income-based metrics that may not be predictive of future operational risk, particularly beyond short horizons. By construction, the BI is a proxy for business volume: it sums an interest, lease, and dividend component with a noninterest component. The BIC is

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[7] ERBA Proposal, 91 Fed. Reg. at 14,977–79 (proposed definition of "commitment" and CCFs); Standardized Approach Proposal, 91 Fed. Reg. at 15,342–43.

[8] ERBA Proposal, 91 Fed. Reg. at 15,042–57 (CVA framework and applicability threshold).

[9] See 12 CFR 217.10(a)(1)(iv) (FRB); 12 CFR 3.10(a)(1)(iv) (OCC); 12 CFR 324.10(a)(1)(iv) (FDIC) (Tier 1 leverage requirement of 4%); see also 12 CFR 217.10(a)(1)(v) (FRB); 12 CFR 3.10(a)(1)(v) (OCC); 12 CFR 324.10(a)(1)(v) (FDIC) (SLR requirement of 3%).

[10] ERBA Proposal, 91 Fed. Reg. at 15,010 (proposed § _.150(a)–(b)); id. at 15,014 (Table 3, marginal coefficient formulas).

[11] See ERBA Proposal, 91 Fed. Reg. at 15,136 (Table VII.4, contribution of other banking services to RWAs).

then calculated by applying marginal coefficients of 12, 15, and 18% to the BI, with the coefficient rising as the BI crosses $1 billion and $30 billion. Because the coefficients step up with size, the BIC imposes higher capital charges simply because a firm is larger, even where the firm's business lines have historically shown that operational losses do not increase in proportion to income.[12] While the Agencies cite research connecting losses to size and complexity,[13] that research examines losses across all banking activities without distinguishing among business lines with fundamentally different risk profiles. The Agencies' own analysis confirms this heterogeneity: investment management, investment services, and non-lending treasury services produce operational losses at approximately 32% of the large-firm average, which is why the Proposals apply a 70% scalar to these activities.[14] Yet even after the 70% scalar, the stepped marginal coefficients continue to impose an accelerating capital charge as the BI grows, premised on the assumption that operational risk increases more than proportionally with business volume.[15] That assumption may hold for firms whose growth exposes them to new and complex operational risks, but it does not hold for wealth management firms whose incremental revenue comes from a fundamentally stable activity - collecting advisory fees on client assets - that the Agencies' own data show to be among the lowest-loss business lines. The ERBA Proposal itself invites comment on whether to include an internal loss multiplier precisely because it is uncertain whether historical loss data, standing alone, reliably predict future operational risk.[16]

The noninterest component's exclusion of salary expense creates a structural asymmetry for wealth management firms

A structural feature of the proposed BI makes this concern especially acute for wealth management businesses. The definition of "noninterest expense for BI" expressly excludes salaries and employee benefits, expenses of premises and fixed assets, goodwill impairment losses, and amortization expense and impairment losses for other intangible assets.[17] As a result, the BI captures wealth management fee and commission income in full on the income side but receives no offset for the single largest expense mechanically tied to that income: financial advisor ("FA") compensation.

Wealth management businesses rely on fee income from client assets managed by financial advisors as a key source of revenue. In return, financial advisors are compensated as a percentage of the revenue they bring in, as defined in their contractual agreements. The percentage or "payout ratio" remains at a relatively similar level under different economic conditions; as such, financial advisor compensation

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[12] ERBA Proposal, 91 Fed. Reg. at 15,011 (describing the BI as a sum of the interest, lease, and dividend component and the noninterest component).

[13] ERBA Proposal, 91 Fed. Reg. at 15,010 (citing Frame, McLemore & Mihov (2020); Curti, Frame & Mihov (2019); Abdymomunov & Curti (2020)).

[14] ERBA Proposal, 91 Fed. Reg. at 15,012–13 (reviewing operational loss-to-income ratios by business line and finding that investment management, investment services, and treasury services produce losses at approximately 32% of the Category I and II average).

[15] ERBA Proposal, 91 Fed. Reg. at 15,014 (Table 3, marginal coefficients of 12%, 15%, and 18%); *id.* at 15,011 (stating that "the proposed higher rate of increase of the BI component as a banking organization's BI rises above $1 billion and $30 billion reflects operational risk generally increasing more than proportionally with a banking organization's overall business volume, in part due to the increased complexity of large banking organizations").

[16] ERBA Proposal, 91 Fed. Reg. at 15,010 (Question 84).

[17] ERBA Proposal, 91 Fed. Reg. at 15,012 (proposed definition of "noninterest expense for BI"). See also FR Y-9C Instructions, Schedule HI, item 7(a) (reporting FA compensation within "salaries and employee benefits"); FFIEC 031/041 Instructions, Schedule RI, item 7.a (same).

moves proportionally and mechanically with revenues. During periods of stress, the value of assets under management declines (e.g., as measured by the relevant market indices), and thus both revenue and FA compensation decline.[18] Publicly available disclosures by major U.S. wealth management firms confirm that FA compensation typically represents a substantial portion of segment net revenues. The FRB's own FR Y-14Q already collects the underlying data – commission expenses (line item 28C) and investment management fees (line item 19B) – that demonstrate this linkage.[19] The FRB has further proposed adding a voluntary "compensable revenue" reporting field to the FR Y-14Q, which would isolate the mechanical relationship between FA production and compensation even more precisely.[20] By treating all noninterest expense as a single block and then excluding salaries and employee benefits from the BI expense offset, the proposal overstates the BI for firms with variable, revenue-linked compensation structures and thereby inflates operational risk capital for wealth management businesses beyond what the underlying risk warrants.

The FRB's stress test proposal confirms the analytical gap

The FRB's own concurrent rulemaking on stress test transparency underscores this structural problem. In its proposed PPNR models, the FRB would replace individual models for compensation, fixed assets, and all other noninterest expenses with a unified approach that treats total noninterest expense as a single component, using the concept of an efficiency ratio.[21] The efficiency ratio is defined as the ratio of noninterest expense to the sum of net interest and noninterest income; a lower efficiency ratio indicates higher efficiency, meaning the bank is spending less to generate each dollar of revenue. By treating noninterest expense as a single component, the stress test proposal blends FA compensation with fixed costs, such as fixed asset expenses, as well as fixed compensation arrangements, that would not decline proportionally with revenues.[22] For a firm with variable, revenue-linked compensation, the proposed efficiency ratio will understate the expense reduction by failing to recognize that such compensation moves in lockstep with revenues. The same analytical error recurs in the BI construct: the noninterest component captures wealth management fee income in full while providing no offset for the mechanically linked FA payout, producing a structurally inflated BI for wealth-management-dominant firms. If the FRB recognizes in the stress testing context that treating noninterest expense as a single block distorts projections for firms with variable, revenue-linked compensation, the same logic should apply to the BI in the capital rule.

The proposed framework does not account for operational risk already capitalized through the stress capital buffer

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[18] FRB, Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, 90 Fed. Reg. 51,856 (proposed Nov. 18, 2025) (the "Stress Test Transparency Proposal"); see also

UBS Americas Holding LLC, *Comment Letter on Stress Test Transparency Proposal* (Feb. 20, 2026), at 6–8 (discussing commissions expense in wealth management businesses, which moves mechanically with fee revenue, and the corresponding FR Y-14Q data fields).

[19] See FR Y-14Q Instructions, Schedule H.2 (Pre-Provision Net Revenue), line items 19B (investment management fees) and 28C (commission expenses).

[20] Stress Test Transparency Proposal, 90 Fed. Reg. at 51,879 (proposing "compensable revenue" field).

[21] See Stress Test Transparency Proposal, 90 Fed. Reg. at 51,870–71 (proposing unified efficiency-ratio model for total noninterest expense).

[22] See id. at 51,870–71 (defining efficiency ratio and applying it uniformly without distinguishing variable compensation from fixed costs).

The proposed operational risk framework does not sufficiently recognize the extent to which supervisory oversight, internal controls, and governance already mitigate operational risk under existing U.S. prudential standards. Regulation YY subjects our IHC to the FRB's supervisory stress testing, which requires projections of aggregate losses, pre-provision net revenue, "other losses or gain," and capital impacts across the planning horizon, and those modeled losses include operational risk losses that feed directly into the stress capital buffer ("SCB").[23] Regulation YY also imposes comprehensive risk-management expectations, including a U.S. risk committee, a U.S. chief risk officer, and governance and control standards commensurate with the structure and risk profile of the combined U.S. operations, all of which reduce prospective operational risk.[24] In parallel, the ERBA proposal itself would require an independent operational risk function, loss-event data collection, and reporting to senior management and the board.[25] Given that operational risk is already capitalized through the SCB and already subject to robust governance and control requirements under Regulation YY, the Agencies should account for this existing coverage when setting the new BI-based charge. As proposed, the BI-based charge would be added to the capital stack with no reduction for the operational risk capital firms already hold through the SCB, effectively requiring firms to hold capital twice for the same risk.

The FRB states that the capital impact of the ERBA operational risk charge and the proposed stress test model changes "would largely offset each other" and that the "combined calibration of these risks would be appropriate."[26] We respectfully disagree that this assertion, standing alone, is sufficient. The FRB's own economic analysis shows that the offset is uneven across risk types. Even after accounting for projected reductions in the stress capital buffer from proposed stress test model changes, operational risk capital requirements would increase by approximately 14.9% under the combined proposals.[27] The "largely offset" characterization reflects an aggregate assessment across all risk types, including credit risk, which would decline by approximately 10%, and market risk, for which stress test changes to the global market shock would materially reduce capital requirements.[28] But for a firm whose capital requirements are concentrated in operational risk because of its fee-based business model, the offset does not operate symmetrically: the BI-driven increase in operational risk RWAs may materially exceed any reduction in the SCB attributable to revised stress test models, producing a net increase in capital requirements that is disproportionate to the firm's actual operational risk profile.

The FRB has not demonstrated how these offsets operate at the firm level – particularly for fee-based businesses – and the two rulemakings are proceeding on separate timelines with no guarantee of simultaneous finalization. If the stress test proposal is not finalized concurrently with the ERBA, firms

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[23] 12 CFR 252.54 (FRB) (stress test requirements for covered companies); see also 12 CFR 252.56 (methodologies and practices).

[24] 12 CFR 252.155 (risk-management and risk-committee requirements for FBOs with combined U.S. assets ≥ $100 billion); 12 CFR 252.153(a) (U.S. chief risk officer requirements).

[25] ERBA Proposal, 91 Fed. Reg. at 15,015 (proposed § _.151, operational risk management requirements).

[26] See ERBA Proposal, 91 Fed. Reg. at 14,960 (stating that "[t]he capital impact of these revisions would largely offset each other, and the Board considers that the combined calibration of these risks would be appropriate").

[27] See id. at 15,103 (Table VII.4 and accompanying analysis, showing operational risk capital requirements increasing by about 14.9 percent under the combined proposals after accounting for proposed stress test model changes).

[28] See id. (showing credit risk capital requirements declining by approximately 10.0 percent under the combined proposals and noting that proposed stress test changes to the global market shock would significantly reduce projected market risk losses).

could face the full weight of the new operational risk charge without the offsetting reduction in the stress capital buffer, a sequencing risk the FRB has not addressed.

Unless it is recalibrated, the operational risk framework could produce capital outcomes that diverge from firms' loss experience for low-risk, fee-based activities. Industry and supervisory analyses confirm that the stress testing framework already requires firms to hold significant capital against operational risk losses; for example, the FRB's 2023 stress test results show that projected "other losses" - a category that includes operational risk losses – totaled approximately $185 billion across the 23 participating firms, representing more than one third of total projected losses, all of which are capitalized through the SCB.[29] Without recalibration, adding a full BI-based charge on top of capital already held through the SCB could result in total capital requirements that exceed the actual risk for fee-based businesses.

The structural asymmetry is illustrated in the following table:

BI Component	Income captured	Expense offset	Net treatment
Interest, lease and dividend	Interest income, dividend income, lease income	Interest expense, lease expense	Netted: BI reflects margin
Noninterest	Fee income, commission income, trading income	Only non-salary noninterest expense (excludes salaries and employee benefits, premises and fixed assets, goodwill impairment, intangible amortization)[30]	One-sided: FA compensation, which is paid as a percentage of wealth management-related revenues, is excluded from the expense offset, inflating the BI for wealth-management dominant firms

Recommendations

We recommend three key recalibrations for the operational risk calculation to better reflect fee-based business models and supervisory mitigation while preserving resilience:

(i) **Permit targeted netting of FA compensation in the noninterest component** so that the BI better reflects economic exposure for wealth management. The interest, lease, and dividend component nets interest income against interest expense, producing a net measure that reflects the difference between income and expense; the noninterest component should treat revenue-linked compensation symmetrically. The most risk-sensitive implementation would anchor the offset to each firm's historical commission-to-investment-management-fee ratio, calculated from FR Y-14Q line items 28C and 19B. Alternatively, if the Agencies preferred a simpler approach, they could create a targeted deduction from the noninterest component for documented revenue-linked compensation, analogous to the existing 70 percent reduction for

[29] See Board of Governors of the Fed. Reserve Sys., 2023 Federal Reserve Stress Test Results 7–8 (June 2023) (reporting aggregate other losses, including operational-risk losses, across 23 firms).

[30] The interest, lease, and dividend component nets income against expense, producing a margin-based measure. By contrast, the noninterest component captures wealth management fee and commission income in full but provides no offset for the single largest mechanically linked expense - FA compensation - because it is reported within "salaries and employee benefits," which the proposed definition of "noninterest expense for BI" excludes.

investment management, investment services, and non-lending treasury services. The FRB's proposed collection of information on compensable revenue data on the FR Y-14Q would further enhance this approach by providing a denominator verified by the FRB.[31] Allowing this netting would materially improve risk sensitivity for wealth management businesses and align the noninterest component's treatment of revenue-linked expenses with the interest, lease, and dividend component's netting of interest income and interest expense.[32]

(ii) **Flatten the coefficient schedule in the business indicator component so that capital does not increase at an accelerating rate as a firm grows** by adopting a uniform 12% marginal factor or reducing the 15 and 18% tiers, which would maintain a prudent relationship between business volume and capital but avoid imposing higher charges simply because a firm is larger, even where the firm's business lines have historically shown that operational losses do not increase in proportion to income.[33] The proposal explicitly invites comment on noninterest-component design and calibration, providing a clear opening for the Agencies to make this change.[34]

(iii) **Retain flexibility to address material divergences where operational risk capital materially exceeds observed risk for stable, low-loss models**, including by operationalizing the ERBA Proposal's approval pathway to exclude exited activities from the BI and clarifying standards and timelines for such approvals.[35] The text permits supervisory approval to exclude income, expense, and losses of activities that the firm has ceased and that carry no legacy legal exposure, which is particularly relevant where wealth management business lines have been divested or wound down; making this relief predictable would align BI inputs with current operations. In addition, reduce immaterial reporting burden by raising the operational-loss data inclusion threshold from $20,000 to $100,000 for ERBA firms, consistent with Basel's national discretion for BI buckets 2 and 3, which would improve data quality without impairing validation.[36] Finally, U.S. IHCs can have their BI inflated by inter-affiliate 'recharge' income (revenue recorded when the IHC or its subsidiaries provide non-financial services (such as technology, compliance, or operations support) to a foreign parent or affiliate under transfer-pricing arrangements). These reimbursements reflect internal cost allocations, not third-party financial services activity, and a domestic banking organization would eliminate them in consolidation. The Agencies should exclude this recharge income from the BI, or allow firms to net it against the corresponding expenses that are already excluded from noninterest expense for BI, so that the BI measures only income from actual financial services provided to third parties. These adjustments would keep the standardized framework transparent and

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[31] FR Y-14Q Instructions, Schedule H.2, line items 19B and 28C; Stress Test Transparency Proposal, 90 Fed. Reg. at 51,879.

[32] ERBA Proposal, 91 Fed. Reg. at 15,011 (interest, lease, and dividend component nets interest income against interest expense).

[33] ERBA Proposal, 91 Fed. Reg. at 15,014 (Table 3, marginal coefficients of 12%, 15%, and 18%).

[34] ERBA Proposal, 91 Fed. Reg. at 15,012–13 (Questions 85–88, inviting comment on design and calibration of noninterest component).

[35] ERBA Proposal, 91 Fed. Reg. at 15,015 (proposed § _.151(b), permitting exclusion of exited activities with supervisory approval).

[36] See Basel Committee on Banking Supervision, Basel Framework, OPE25.12-.13 (providing national discretion to set loss-event threshold at €100,000 for banks in BI buckets 2 and 3); ERBA Proposal, 91 Fed. Reg. at 15,016 (proposed $20,000 threshold, indexed to CPI-W).

comparable while better aligning capital to economic risk and the supervisory architecture already in place.

2. The definition of "commitment" should not capture arrangements where a firm retains full discretion over whether to extend credit

The Proposals would substantively expand the definition of commitment by providing that any contractual arrangement under which a bank and an obligor agree to terms for one or more future extensions of credit, purchases of assets, or issuances of credit substitutes is a commitment "whether or not the arrangement is unconditionally cancelable," and by clarifying that advised lines and "uncommitted" facilities fall within scope even if the bank is not obligated to fund.[37] The preamble states that offers or negotiations not agreed by both parties are excluded, but the new definition would still bring within scope a broad set of discretionary arrangements that have historically not been treated as commitments under the capital rule. This change is of particular concern for wealth management businesses, which commonly use advised facilities and uncommitted credit lines to provide flexibility for client service without imposing a binding obligation on the bank.

The proposed definition reverses the current "legally binding" standard

This change is not merely a clarification relative to the current rule. It reverses the current legally binding standard and would newly capture arrangements, such as credit lines on securities-based lending, that do not impose a funding obligation on the bank. Under the capital rule today, a "commitment" is "any legally binding arrangement that obligates" the institution "to extend credit or to purchase assets,".[38] The Proposals remove the "legally binding" anchor and reframe uncommitted and advised facilities as "commitments", including where the bank retains full discretion not to fund, which represents a substantive expansion of what constitutes a commitment. The effect is to require banks to hold capital against arrangements that do not create an enforceable right to draw and do not impose a binding obligation on the bank to lend.

The scope of the change is summarized in the table below:

Feature	Current rule	Proposed rule
Definition anchor	"Legally binding arrangement that obligates" the bank to extend credit or purchase assets	"Contractual arrangement" where terms for future extensions of credit are agreed, "whether or not unconditionally cancelable"
Discretionary / advised facilities	Not commitments – no legal obligation to fund	Commitments – treated as unconditionally cancelable commitments if bank retains full discretion to decline funding
Unconditionally cancelable commitment risk-based CCF (standardized approach)	0%	0% (unchanged)

[37] ERBA Proposal, 91 Fed. Reg. at 14,979 (proposed definition of "commitment"); Standardized Approach Proposal, 91 Fed. Reg. at 15,345-46 (same).

[38] 12 CFR 217.2 (FRB) (definition of "commitment"); 12 CFR 3.2 (OCC) (same); 12 CFR 324.2 (FDIC) (same).

Unconditionally cancelable commitment risk-based CCF (ERBA)	N/A	10% (new)
Non-unconditionally cancelable commitment CCF (standardized / ERBA)	20% (original maturity ≤ 1 year) / 50% (original maturity > 1 year)	40% (regardless of maturity)
SLR treatment of unconditionally cancelable commitments	10% minimum CCF	10% minimum CCF (unchanged)
SLR treatment of non-unconditionally cancelable commitments	Current CCFs apply	Agencies solicit comment on importing 40% CCF
FR Y-15 size indicator	Current CCFs apply	Agencies solicit comment on importing 40% CCF

Capturing discretionary arrangements as commitments would inflate measured exposure without a corresponding increase in economic risk. The preamble's own example treats an arrangement as a commitment even when the bank has full discretion to decline funding on each request, solely because material terms have been agreed, which severs the link between a bank's legal obligation to fund and the requirement to hold capital against that exposure.[39] In such cases, there is no enforceable right to draw, no funding expectation, and each potential draw is separately underwritten, yet the Proposals would treat the bank as having a credit exposure simply because the parties have discussed and agreed on lending terms, even though the bank has not promised to lend. The Agencies attempt to bound the scope by excluding mere offers or negotiations, but they also ask whether the definition appropriately captures discretionary arrangements, implicitly acknowledging that it is not clear where the line should be drawn.[40] The result is both substantive overreach and operational ambiguity: banks and examiners would need to determine, case by case, whether agreed terms create a capitalizable exposure even when the bank retains full discretion not to fund. A financial advisor may discuss lending parameters with a client, for example, the terms on which a securities-based loan could be made available against a managed portfolio, but each draw request is individually underwritten, separately approved, and subject to collateral evaluation at the time of the request. There is no enforceable right to draw, no standing funding expectation, and the bank retains full discretion to decline. Yet, under the Proposals, the bank would be treated as having a capital-bearing credit exposure simply because the parties have discussed and agreed on lending terms, even though no promise to lend has been made.

Capital implications

The capital consequences would be significant under both the risk-based and leverage frameworks. Under ERBA, the Proposals would assign a new 10% CCF to the unused portion of unconditionally

[39] See ERBA Proposal, 91 Fed. Reg. at 14,978 (providing example of an arrangement where a banking organization "retains full discretion as to whether to extend credit to a potential borrower, but under which the banking organization and the potential borrower have agreed to the material terms on which such lending would take place if the banking organization chose to extend credit" as an unconditionally cancelable commitment under the proposal).

[40] See id. at 14,978–79 (Question 30, seeking comment on whether the proposed definition "appropriately capture[s] as off-balance sheet exposures arrangements where the banking organization is not legally obligated to extend credit, purchase assets, or issue credit substitutes but which nonetheless arise out of a contractual arrangement to extend credit or purchase assets").

cancelable commitments and a flat 40% CCF to commitments that are not unconditionally cancelable, regardless of maturity, replacing the current approach of applying 20% for commitments with original maturity of one year or less and 50% for longer commitments.[41] The Agencies also propose to apply the 40% CCF for non-unconditionally cancelable commitments to the supplementary leverage ratio ("SLR") denominator and to the FR Y-15 size category measure.[42] Under the Standardized Approach Proposal, unconditionally cancelable commitments would continue to carry a 0% CCF for risk-based capital purposes, but they would still be subject to a minimum 10% CCF for purposes of the SLR. Under ERBA, those same commitments would, for the first time, carry a 10% risk-based CCF. If the definition is broadened to include discretionary arrangements, those arrangements would increase risk-based exposure, leverage exposure, and potentially systemic-footprint measures even though they do not impose a binding funding obligation on the bank. As discussed below in our comments on leverage, post-stress leverage is already the binding constraint for our IHC; broadening the commitment definition and importing the 40% CCF into the SLR denominator would tighten that constraint further.

Reporting and operational implications

The expanded definition would also disrupt alignment with reporting requirements, increasing complexity and the risk of inconsistent interpretation. The FR Y-9C and Call Report instructions currently require separate reporting of unconditionally cancelable commitments at a zero percent CCF for risk-based purposes while noting a 10% minimum for SLR.[43] Treating non-binding, fully discretionary arrangements as commitments for capital purposes would require banks to build new reporting categories that do not align with the current standard based on legally binding obligations in the Agencies' capital rules and could yield divergent treatments across reports, capital schedules, and supervisory examinations absent clear, contract-based criteria. At a minimum, if the Agencies pursue a broader definition, they should provide clear reporting guidance so firms and examiners can apply the new standard consistently across capital, leverage, and regulatory-reporting schedules.

Recommendation: retain the legally binding standard or proceed by separate NPR

The definition of "commitment" should retain a clear, legally binding standard and should not capture arrangements where the firm retains full discretion over whether to extend credit. A legally binding anchor provides an objective, contract-based threshold that aligns capital recognition with enforceable exposure and reduces ambiguity in application. It is consistent with the definitions in the Agencies' current capital rules and avoids imputing exposure to client service practices that do not create funding obligations.[44]

Retaining the legally binding standard would also preserve consistency across the broader prudential framework. The LCR and NSFR rules define a credit facility as a "legally binding agreement" to extend funds if requested at a future date. The single-counterparty credit limits framework similarly excludes uncommitted lines of credit from the definition of "credit transaction" and permits a covered company to reduce gross credit exposure by the unused portion of committed credit lines and revolving credit facilities where the firm has no legal obligation to advance additional funds and the used portion is fully

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[41] ERBA Proposal, 91 Fed. Reg. at 14,981 (proposed 10% CCF for UCCs; proposed 40% CCF for non-UCCs); see also Basel Committee on Banking Supervision, Basel Framework, CRE20.94 (10% CCF for unconditionally cancellable commitments).

[42] ERBA Proposal, 91 Fed. Reg. at 14,982 (discussing application of 40% CCF to SLR and FR Y-15).

[43] See FR Y-9C Instructions, Schedule HC-R, Part II, item 8 (reporting unconditionally cancelable commitments); FFIEC 031/041 Instructions, Schedule RC-R, Part II, item 8.

[44] See 12 CFR 217.2 (FRB); 12 CFR 3.2 (OCC); 12 CFR 324.2 (FDIC).

secured by eligible collateral. Treating non-binding arrangements as commitments for capital purposes would therefore introduce unnecessary inconsistency across regulatory regimes that otherwise distinguish enforceable funding obligations from discretionary lending arrangements.

The proposed definition would also deviate from U.S. GAAP. Under U.S. GAAP, loan commitments are legally binding commitments to extend credit under prespecified terms and conditions. Departing from that definition would require firms to maintain parallel, non-aligned regulatory and accounting taxonomies, increase operational complexity and compliance burden, and heighten the risk of inconsistent interpretation across firms and regulators. It could also create inconsistencies between FR Y-9C reporting and annual and quarterly reports filed with the SEC, which could cause confusion for users of a firm's financial statements.

If the Agencies nevertheless choose to move forward on broadening the definition, they should do so through a separate notice of proposed rulemaking rather than finalizing the change here as a "clarification." The Agencies' own request for comment confirms that the scope and calibration issues are not settled. Any separate proposal should be supported by product-specific utilization data, clear scope criteria, and analysis of the resulting effects on risk-based capital, leverage, and reporting.

Product heterogeneity is especially important. Advised lines supporting institutional wealth-management clients present materially different use patterns and risk characteristics from retail charge cards or commercial "uncommitted" revolvers. For example, a wealth management advised line typically involves individually underwritten draws against separately evaluated collateral, with the bank retaining full discretion at each stage. Such an arrangement presents a fundamentally different risk profile from a revolving commercial facility with contractual draw rights. A broadened definition that treats these products uniformly would obscure those differences and could produce conversion factors that are too high for some products and too low for others.

These issues are fundamental to the design and calibration of any broadened definition and cannot be adequately resolved within the current rulemaking. A separate NPR focused on commitments would allow the Agencies to develop an evidentiary record, test product-specific alternatives, and evaluate the resulting effects on capital, leverage, and systemic-footprint measures before finalizing a broader standard. This approach has precedent. When the Agencies adopted SA-CCR, they proceeded through a standalone rulemaking with dedicated analysis and a two-year transition period, rather than embedding the change within a broader capital overhaul.

In the interim, the Agencies should refrain from importing the proposed 40% CCF for non-unconditionally cancelable commitments into the SLR denominator and FR Y-15 size category pending the analysis described above.[45] The Proposals solicit comment on this question, recognizing the leverage and systemic footprint implications. Applying a 40% CCF in leverage to arrangements without a binding funding obligation would compound the misalignment between measured exposure and legal risk and could tighten balance-sheet capacity during stress precisely when clients most need access to low-risk credit, particularly at institutions for which leverage is already binding.

Finally, for commitments with no pre-set limit, the final rule should confine the proxy methodology to retail products, as in ERBA, and make clear that institutional arrangements with individually

[45] Id. at 14,982 (soliciting comment on applying 40% CCF to SLR and FR Y-15).

underwritten transactions and full bank discretion are not "commitments" absent a legally enforceable obligation.[46]

These adjustments would preserve comparability and international alignment on CCF calibration where true commitments exist, while avoiding the unintended consequence of capitalizing arrangements that confer no enforceable right to credit and impose no binding obligation on the bank. They would also reduce ambiguity and operational burden by grounding the definition in objective, contract-based criteria that are already embedded in current capital rule and reporting frameworks.

3. Pension-related AOCI should be excluded from CET1 capital; firms should also have the option to recognize remaining AOCI elements immediately

The Proposals would require Category III and IV banking organizations, and any organization that elects to apply ERBA, to recognize most elements of accumulated other comprehensive income ("AOCI") in common equity tier 1 ("CET1") capital, with a five-year transition period, thereby ending the current opt out for these firms.[47] The specified AOCI components include net unrealized gains and losses on available-for-sale ("AFS") debt securities, accumulated net gains and losses on cash-flow hedges where the hedged item is not fair-valued, amounts recorded in AOCI attributed to defined benefit postretirement plans under GAAP, and net unrealized gains and losses on held-to-maturity securities that flow through AOCI.[48] The Agencies explain that requiring Category III and IV firms to recognize most elements of AOCI would better reflect point-in-time capital adequacy and loss-absorbing capacity, notwithstanding the potential for volatility, and they propose to phase in this change evenly over five years.[49]

We support the Agencies' objective of improving point-in-time transparency of capital positions, and we recognize the public policy rationale for requiring recognition of unrealized gains and losses on AFS securities in regulatory capital. The events of spring 2023, including the failures of Silicon Valley Bank and First Republic Bank, underscored that large unrealized losses on liquid securities portfolios can impair a bank's tangible common equity and its ability to meet near-term liquidity needs under stress.[50] Requiring AFS-related AOCI to flow through CET1 responds directly to that experience and promotes market discipline by ensuring that regulatory capital ratios more closely track tangible book value.

We do not believe, however, that the same rationale extends to pension-related AOCI. Under the existing capital rules, when a non-advanced approaches firm elected the historical AOCI opt-out, it explicitly reversed pension-related AOCI from CET1 by subtracting amounts recorded in AOCI that are attributed to defined benefit postretirement plans.[51] In adopting the opt-out, the Agencies recognized that changing interest rate environments "could lead to material fluctuations in the value of a banking

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[46] Id. at 14,980–81 (discussing "highest drawn balance over 24 months" proxy for commitments with no pre-set limit).

[47] Standardized Approach Proposal, 91 Fed. Reg. at 15,337; ERBA Proposal, 91 Fed. Reg. at 14,957.

[48] Standardized Approach Proposal, 91 Fed. Reg. at 15,337–38; see proposed 12 CFR 217.300(a)(1)–(4) (FRB); proposed 12 CFR 3.300(a)(1)–(4) (OCC); proposed 12 CFR 324.300(a)(1)–(4) (FDIC).

[49] Standardized Approach Proposal, 91 Fed. Reg. at 15,337 (Table 1 to § _.300, five-year phase-in schedule).

[50] See FRB, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (Apr. 2023); FDIC, FDIC's Supervision of First Republic Bank (Sept. 2023).

[51] 12 CFR 217.22(b)(2)(i)(D) (FRB); 12 CFR 3.22(b)(2)(i)(D) (OCC); 12 CFR 324.22(b)(2)(i)(D) (FDIC) (AOCI opt-out adjustment for defined benefit postretirement plans).

organization's defined benefit post-retirement fund assets and liabilities, which in turn could create material swings in a banking organization's regulatory capital that would not be tied to changes in the credit quality of the underlying assets."[52] That recognition remains valid. The 2013 rulemaking record also acknowledges that discount rate changes tied to prevailing long term interest rates can cause material swings in the measured funded status of pension obligations, while the underlying liabilities typically extend 15 to 20 years, producing capital volatility unrelated to changes in credit risk or solvency.[53] The disconnect between pension driven capital volatility and actual risk is particularly acute for a firm whose primary source of revenue is stable advisory fee income rather than net interest income. Pension AOCI swings are driven by long-term interest rate changes, while the firm's earnings are driven by assets under management. The result is that regulatory capital ratios would move for reasons that have nothing to do with the firm's actual earning power, risk profile, or ability to absorb losses.

The suggestion that the Agencies rejected the exclusion of pension-related AOCI in 2013 does not withstand scrutiny. In the 2013 final rule, the Agencies addressed commenters' concerns about pension-related AOCI by permitting non-advanced approaches banking organizations to opt out of including most AOCI in regulatory capital, rather than separately analyzing whether pension-related AOCI should be excluded from CET1 on its own merits. That opt-out largely resolved the issue for non-advanced approaches firms at the time.[54] The intervening decade has not altered the distinction. The Agencies' own reviews of the 2023 failures highlighted the role of unrealized losses in liquid securities portfolios on capital erosion. Pension-related AOCI played no role in those analyses. This experience should inform the current rulemaking: pension-related AOCI was not part of the problem and should not be swept into the solution. The categorical distinction between AFS securities AOCI and pension-related AOCI is summarized in the table below:

Characteristic	**AFS securities AOCI**	**Pension-related AOCI**
Duration of underlying exposure	Varies; many holdings are intermediate-term and tradeable	Typically, 15 - 20 years
Liquidity relevance	May need to be sold at a loss to meet near-term liquidity needs under stress	Not available for liquidation; pension obligations are funded over decades

[52] Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule, 78 Fed. Reg. 62,018, 62,060 (Oct. 11, 2013) (acknowledging that "changing interest rate environments could lead to material fluctuations in the value of a banking organization's defined benefit post-retirement fund assets and liabilities, which in turn could create material swings in a banking organization's regulatory capital that would not be tied to changes in the credit quality of the underlying assets").

[53] Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule, 78 Fed. Reg. 62,018, 62,043 (Oct. 11, 2013) (discussing actuarial sensitivity of pension AOCI to discount-rate changes and the 15- to 20-year duration of underlying obligations).

[54] See 78 Fed. Reg. at 62,060 (adopting AOCI opt-out for non-advanced approaches banking organizations, which permitted these firms to exclude most AOCI components from CET1 and thereby resolved the pension-related AOCI concern without requiring a separate exclusion).

Relationship to tangible equity assessment in 2023	Central to SVB and First Republic failure analyses	Not identified as a contributing factor in the FRB's SVB report (Apr. 2023) or the FDIC's First Republic report (Sept. 2023)
Primary driver of AOCI volatility	Market interest rates and credit spreads on liquid instruments	Actuarial assumptions (discount rate, mortality tables, plan asset returns)
Path to earnings recognition	Realized upon sale or maturity	Amortized into net periodic benefit cost over employee service lives
Addressed substantively in 2013 rulemaking?	Yes - Agencies required recognition for advanced approaches firms	No - Agencies made AOCI recognition optional without substantively addressing pension exclusion on the merits

The Agencies recognized these distinctions when they designed the historical AOCI opt-out. They also excluded certain hedge-related AOCI entries that would otherwise create artificial volatility when the hedged item is not carried at fair value. These choices confirm that the Agencies have already drawn the line to include some AOCI components and exclude others based on policy judgments about which items meaningfully inform capital adequacy.[55]

Although the Basel Framework references pension fund liabilities in the CET1 calculation, the Agencies have already departed from Basel's AOCI requirements in multiple respects, and the Proposals themselves continue that pattern. The 2013 final rule's AOCI opt-out election, which permitted all non-advanced approaches banking organizations to exclude most AOCI components from CET1 entirely, was a significant deviation from the Basel III requirement that all AOCI flow through regulatory capital.[56] The Agencies concluded in 2013 that this departure was justified by the potential for unwarranted volatility in regulatory capital ratios that "would not be tied to changes in the credit quality of the underlying assets."[57] That same analytical judgment – differentiating among AOCI components based on their relevance to near-term capital adequacy – is precisely what we ask the Agencies to apply here. The Proposals themselves reflect this component-by-component approach: they exclude from the AOCI recognition requirement accumulated net gains and losses on cash-flow hedges where the hedged item is not fair-valued on the balance sheet, on the rationale that including only one side of the hedge would "give rise to artificial volatility" in CET1.[58] A pension-related AOCI exclusion follows this same principle: it removes the component of AOCI that introduces volatility disconnected from credit risk and solvency, while retaining the components that directly inform loss-absorbing capacity. This is not a wholesale

[55] 12 CFR 217.22(b)(2)(i)(B) (FRB) (opt-out adjustment for cash-flow hedges); see also Standardized Approach Proposal, 91 Fed. Reg. at 15,337 (specifying AOCI elements included in transition).

[56]78 Fed. Reg. at 62,060–61 (adopting AOCI opt-out for non-advanced approaches banking organizations notwithstanding Basel III's requirement of full AOCI recognition).

[57] 78 Fed. Reg. at 62,060 (adopting AOCI opt-out for non-advanced approaches banking organizations notwithstanding Basel III's requirement of full AOCI recognition).

[58] Standardized Approach Proposal, 91 Fed. Reg. at 15,337; *see also* Basel Framework, CAP30.11 (excluding cash-flow hedge reserve amounts from CET1 where the hedged item is not fair-valued on the balance sheet, on the basis that "the reserve only reflects one half of the picture (the fair value of the derivative, but not the changes in fair value of the hedged future cash flow)").

departure from international standards, but a targeted, analytically justified application of the Agencies' existing practice of selectively including AOCI elements that meaningfully inform capital adequacy.

The transition mechanics in the Proposals confirm both the breadth of the policy shift and the Agencies' openness to implementation flexibility, which supports a tailored exclusion for pension-related AOCI. The Standardized Approach Proposal NPR specifies the calculation of an "AOCI adjustment amount" that expressly includes amounts recorded in AOCI attributed to defined benefit postretirement plans and phases that amount into CET1 over five years, and it asks whether the transition should be optional so firms could elect immediate full recognition if advantageous for planning.[59] A comparable five-year transition would apply to banking organizations that newly recognize AOCI upon electing ERBA.[60]

We therefore recommend two changes. First, exclude pension-related AOCI from CET1, on the ground that defined benefit plan adjustments are actuarially driven, long-dated, and analytically distinct from the near-term liquidity risks that justify AFS recognition. Second, and independently, provide an irrevocable option for banking organizations to recognize the remaining AOCI elements – including AFS securities and cash-flow hedge AOCI – in full at any point during the five-year transition period, rather than requiring the phased schedule.[61] Because firms will be affected differently by the requirement, and because some may benefit from aligning regulatory capital with tangible book value sooner for planning and market-signaling purposes, this flexibility would support the Agencies' stated goal of better reflecting capital adequacy and loss-absorbing capacity while allowing individual institutions to manage the transition in the manner most appropriate to their circumstances.

Finally, the Agencies' economic analysis reinforces that most AOCI variability at Category III/IV firms has historically arisen from securities portfolios, not pensions, which further supports carving out pension-related AOCI.[62] The Proposals estimate the long-run average impact of including AOCI by scaling unrealized securities marks and defined-benefit AOCI using decades of FR Y-9C data, and they attribute the majority of AOCI at opted-out firms to unrealized losses on current or former AFS securities that are sensitive to interest-rate moves. Excluding pension-related AOCI would remove the component least relevant to point-in-time capital strength, while retaining the elements of AOCI that most directly inform it. This targeted change would serve the Proposals' goal of making capital ratios more informative, while avoiding artificial volatility from long-dated pension obligations and maintaining consistency with international standards where that consistency matters most.

4. CVA capital should match the scope of covered positions and exclude intercompany derivatives

The Proposals would apply CVA capital to Category I and II holding companies and to any banking organization subject to the market risk framework that also has average aggregate OTC derivatives gross notional amounts of at least $1 trillion over the prior four quarters, indexed to CPI-W.[63] The Proposals define the scope of "CVA risk covered positions" to include OTC derivatives other than

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[59] Standardized Approach Proposal, 91 Fed. Reg. at 15,338 (Question 4, asking about costs and benefits of making transition optional).

[60] ERBA Proposal, 91 Fed. Reg. at 14,957; id. at 15,304 (proposed § 217.300(a) transition for ERBA electors).

[61] Standardized Approach Proposal, 91 Fed. Reg. at 15,338 (Question 4).

[62] Id. at 15,378 (estimating long-run AOCI impact using decades of FR Y-9C data and attributing majority to AFS securities marks).

[63] ERBA Proposal, 91 Fed. Reg. at 15,079 (CVA applicability and $1 trillion threshold, indexed to CPI-W).

cleared transactions and the exposure of a clearing member to its client when facilitating a client's cleared transaction (a "client-facing derivative transaction"), and would permit banks to exclude certain eligible credit derivatives that are recognized as credit risk mitigants from the CVA portfolio.[64] A banking organization could recognize internal and external CVA hedges when certain eligibility criteria are met, including for internal risk transfers between a CVA desk and a trading desk.[65] We support this effort to align the charge with positions that actually generate CVA risk and to recognize risk-reducing hedges.

The $1 trillion applicability threshold should be measured using only CVA risk covered positions. We recommend that CVA capital apply only to the types of derivatives positions that the Proposals themselves define as CVA risk-covered positions, and that the $1 trillion activity threshold used to determine whether a firm is subject to CVA capital be measured using only those same positions. The Proposals exclude cleared transactions and client-facing transactions from the definition of CVA risk-covered positions because banks generally do not record accounting CVA on these trades – their credit exposure is minimal given daily margining and the ability to close out quickly.[66] The Proposals also permit the exclusion of certain eligible credit derivatives recognized as credit risk mitigants from the CVA portfolio to avoid disincentivizing hedging. If the Agencies exclude those trades from the CVA charge, they should not count the same trades when determining whether a firm crosses the threshold that triggers the charge. Otherwise, a firm could become subject to CVA capital because of activity that the Agencies have already determined does not meaningfully generate CVA risk. The final rule should therefore measure the $1 trillion threshold using only the notional amount of positions that would themselves be treated as CVA risk covered positions.

The Agencies also request comment on the appropriateness of the $1 trillion threshold level itself.[67] We support limiting CVA capital to firms with meaningful CVA risk and recommend that the Agencies consider raising the threshold. Measured against only CVA risk covered positions, a higher threshold would focus the requirement on firms with significant bilateral, non-cleared derivatives exposure and avoid subjecting firms to CVA capital where derivatives activity is primarily cleared, client-facing, or otherwise excluded from the charge.

Intercompany derivatives should be excluded from both the scope of CVA-covered positions and the measurement of the activity-based threshold. At the holding-company level, intragroup derivatives are eliminated in consolidation and therefore do not contribute to external CVA exposure, which supports excluding them from the threshold and the portfolio subject to CVA capital. For an IHC that manages its clients' risk exposures in part through internal booking models with its foreign parent, including intercompany derivatives in the threshold could scope the firm into CVA capital based on intragroup risk transfers that do not reflect third-party counterparty credit risk. At the standalone depository institution level, the Proposals acknowledge a nuance: an "external transaction" for a depository institution can include a transaction with an affiliate that is not its direct or indirect subsidiary for purposes of that entity's standalone capital requirement.[68] The final rule should clarify that intragroup trades do not count toward the consolidated threshold and, for standalone entities, that

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[64] Id. at 15,080-81 (defining "CVA risk covered position" and permitting exclusion of eligible credit derivatives).

[65] Id. at 15,080 (recognition of internal and external CVA hedges).

[66] Id. at 15,079 (explaining exclusion of cleared and client-facing transactions from CVA-covered positions).

[67] Id. at 15,079 (Question 179, soliciting comment on advantages and disadvantages of $1 trillion threshold).

[68] Id. at 15,044 n.281 (discussing treatment of affiliate transactions at the standalone depository institution level).

supervisors will exercise reserved authority to exclude intragroup exposures that do not reflect market-based counterparty credit risk, so that the framework remains focused on the third-party counterparty credit risk it is designed to address.

CVA capital should avoid double-counting risks already capitalized through the stress test.[69] The FRB's stress testing methodology already attributes CVA losses to the global market shock and counterparty-default components, which feed directly into the stress capital buffer. Adding a standalone CVA capital charge without accounting for this existing coverage risks over-calibration – the same concern we raise above with respect to operational risk, where the FRB's "largely offset" assertion does not hold at the firm level for fee-based institutions. The final rule should document how the Agencies have assessed the interaction between the CVA charge and the SCB to ensure coherence across the capital stack, particularly for firms whose CVA portfolios are modest and whose CVA losses under stress are already fully reflected in the SCB.[70]

The Proposals' recognition of CVA hedges should be preserved and clarified. The Proposals appropriately allow firms to recognize both internal and external hedges as reducing CVA risk, even when the hedge itself is not a CVA-covered position – for example, a cleared interest rate swap used to hedge CVA exposure on a bilateral portfolio. This treatment should be preserved and clarified in the final rule, because penalizing or ignoring prudent hedging would discourage firms from managing CVA risk. The Agencies should provide clear operational standards for internal CVA hedges so that firms and examiners can apply this treatment consistently.

Supervisory reserved authority should be exercised on the basis of objective criteria. The Proposals provide reserved authority for supervisors to include a firm that is below the threshold or to exclude a firm that is above the threshold, based on the level of CVA risk and safety-and-soundness considerations.[71] That authority should be exercised by reference to the size and composition of the firm's bilateral, non-cleared derivatives portfolio, so that the framework remains focused on positions that actually generate CVA risk.

The final rule should provide a transition period of at least two years from finalization. We support the trade associations' recommendation that CVA capital requirements not become effective until at least two years after finalization.[72] A two-year period should be sufficient for firms to build the systems, data infrastructure, and governance needed to compute CVA capital under the basic approach ("BA-CVA"), which applies by default.[73] This timeline is consistent with the precedent set by the SA-

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[69] See 12 CFR 252.54 (FRB); Board of Governors of the Fed. Reserve Sys., Supervisory Stress Test Methodology (June 2023) (describing CVA loss projections within global market shock).

[70] See 12 CFR 252.54 (FRB); Board of Governors of the Fed. Reserve Sys., Supervisory Stress Test Methodology (June 2023) (describing CVA loss projections within global market shock).

[71] See ERBA Proposal, 91 Fed. Reg. at 15,079–80 (providing that the primary Federal supervisor may require a banking organization that does not meet the scoping criteria to apply CVA risk capital requirements "if the supervisor deems it necessary or appropriate because of the level of CVA risk" and may exclude a banking organization that meets the criteria if "the exclusion is appropriate based on the level of CVA risk of the banking organization's CVA risk covered positions" and "consistent with safe and sound banking practices"); see also proposed § __.201(c), 91 Fed. Reg. at 15,199.

[72] See, e.g., IIB Capital Comment Letter at 47 (Jan. 16, 2024) (recommending two-year transition from finalization for CVA requirements).

[73] ERBA Proposal, 91 Fed. Reg. at 15,044–45 (BA-CVA as default approach).

CCR final rule, which provided approximately two years from finalization to mandatory compliance for advanced approaches firms.[74] This sequencing is especially important for firms that would need to operationalize SA-CCR inputs before seeking approval to use the standardized approach ("SA-CVA"). We support this flexibility and encourage the Agencies to confirm in the final rule that a firm may begin with BA-CVA and apply for SA-CVA approval when operationally ready, without any restriction on the timing of such an application.

5. Leverage capital requirements should remain a backstop, not a binding constraint in business-as-usual conditions

The capital rule sets leverage requirements as simple, non-risk-based complements to risk-based standards. The preamble to the capital rule and subsequent rulemakings have consistently described leverage requirements as a safety net, designed to catch risks that the risk-based framework might miss, not to serve as the primary constraint on a bank's activities under normal conditions.[75] We support this design principle and urge the Agencies to preserve it in finalizing the Proposals.

In practice, however, leverage has typically been the binding post-stress constraint for our IHC. The leverage ratio counts every dollar of assets equally regardless of risk, meaning that low-risk assets such as cash at the Federal Reserve and U.S. Treasury securities, which support our wealth-management clients' liquidity needs, require the same amount of capital as higher-risk exposures. Under Regulation YY, the FRB's supervisory stress tests project all regulatory capital ratios, including leverage, over a nine-quarter planning horizon. Changes to how capital and exposure are measured under the Proposals would flow directly into those projections. When leverage becomes the binding constraint after stress, it negates the Proposals' improvements to risk sensitivity and constrains precisely the low-risk intermediation that is central to wealth-management client service: custody, cash management, securities lending, and advised credit facilities.[76] Several of the changes discussed in this letter would independently increase the likelihood that Tier 1 leverage binds for our IHC. AOCI recognition discussed in Section 3 could reduce the CET1 numerator in periods of rising rates or adverse actuarial experience. These interactions make it more important, not less, for the Agencies to evaluate whether the current leverage calibration remains appropriate in light of the material changes the Proposals would make to risk-based requirements.

The Proposals would materially recalibrate risk-based capital requirements, including by introducing a standardized operational risk charge, updating credit and market risk weights, and revising the definition of regulatory capital. These changes are intended to improve risk sensitivity and would, in aggregate, lower total capital requirements while redistributing capital across risk types, increasing requirements for some activities, such as trading and operational risk, and decreasing them for others, such as credit risk and mortgage lending. If leverage requirements are not evaluated in conjunction with these recalibrations, they risk becoming the de facto binding constraint for an increasing number of firms – not because leverage-based limits are needed to ensure safety and soundness, but because the risk-based requirements have been updated while the leverage

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[74] *See* Standardized Approach for Calculating the Exposure Amount of Derivative Contracts, 85 Fed. Reg. 4,362 (Jan. 24, 2020) (effective Apr. 1, 2020; mandatory compliance for advanced approaches firms Jan. 1, 2022). See 12 CFR 217.34(a) (FRB); 12 CFR 3.34(a) (OCC); 12 CFR 324.34(a) (FDIC).

[75] See 78 Fed. Reg. at 62,052 (2013 final rule describing leverage as "a simple measure that is not risk-based and provides a floor"); see also Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 84 Fed. Reg. 59,230, 59,241 (Nov. 1, 2019) (describing leverage as a "complement to, and backstop for, the risk-based capital framework").

[76] 12 CFR 252.56 (FRB) (stress test methodologies and practices); Stress Test Transparency Proposal, 90 Fed. Reg. at 51,870 (projecting leverage denominators under stress).

floor has stayed the same. This outcome would undermine the Proposals' objective of making risk-based requirements more risk-sensitive, because the binding constraint would remain a measure that is, by design, indifferent to risk.[77]

A binding leverage ratio can also create perverse incentives. When leverage rather than risk-based capital determines a firm's effective constraint, holding a dollar of cash at the Federal Reserve or U.S. Treasuries costs the same amount of capital as holding a dollar of higher-risk assets. This flattening of incentives can discourage prudent, low-risk intermediation without improving resilience and, over time, tilt balance sheets toward higher-yielding, riskier exposures – the opposite of the Proposals' stated policy goals.[78]

We respectfully urge the Agencies to evaluate the interaction between the current Tier 1 leverage floor and the recalibrated risk-based stack, and to take appropriate steps to ensure that leverage operates as a backstop rather than a binding constraint in business-as-usual and post-stress conditions. We recognize that the appropriate calibration of leverage requirements involves considerations beyond the scope of this rulemaking, and we look forward to engaging with the Agencies on this topic. Multiple, strong guardrails – including risk-based minimums and buffers under the capital rule,[79] the stress capital buffer under Regulation YY,[80] and supervisors' explicit authority to require capital commensurate with the level and nature of all risks at individual firms[81] – would continue to ensure safety and soundness even as the Agencies rebalance the leverage and risk-based components of the capital stack. A leverage framework that serves as a true backstop – while risk-based requirements remain the primary constraint - would better achieve the Proposals' goals and allow banks to continue providing the low-risk financial services that benefit the U.S. economy.

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We appreciate the opportunity to provide comments and would welcome additional discussions on the topics raised in this letter.

Yours sincerely,

David Wildermuth
President of UBS Americas Holding LLC / IHC

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[77] See 78 Fed. Reg. at 62,052 (2013 final rule describing leverage as "a simple measure that is not risk-based and provides a floor"); see also Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 84 Fed. Reg. 59,230, 59,241 (Nov. 1, 2019) (describing leverage as a "complement to, and backstop for, the risk-based capital framework").

[78] See ERBA Proposal, 91 Fed. Reg. at 15,130 (discussing incentive effects when leverage binds).

[79] 12 CFR 217.10(a)(1)-(3) (FRB); 12 CFR 3.10(a)(1)-(3) (OCC); 12 CFR 324.10(a)(1)-(3) (FDIC).

[80] 12 CFR 225.8(d) (FRB) (stress capital buffer requirement).

[81] 12 CFR 217.1(a)(2) (FRB) (reservation of authority); 12 CFR 3.1(a)(2) (OCC) (same); 12 CFR 324.1(a)(2) (FDIC) (same).