INTERNATIONAL TRADE & FORFAITING ASSOCIATION, ET. AL., SEAN EDWARDS, ET. AL.

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: International Trade & Forfaiting Association, et. al.

Organization Type: Organization

Name: Sean Edwards, et. al.

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Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Email: publiccomments@frb.gov
Docket Nos. 1887, R-1888, 1889
RINs 7100-AH20, 7100-AH21, 7100-AH22

Jennifer M. Jones, Deputy Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AF29)
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429
Email: comments@FDIC.gov
RINs 3064-AF29, 3064-AG23

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219
Docket IDs OCC-2026-0265, OCC-2026-0034
RINs 1557-AF52, 1557-AF49

Re: ***Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets; Response to Question 22***

Dear Ladies and Gentlemen:

The International Association of Credit Portfolio Managers ("IACPM") and the International Trade and Forfaiting Association ("ITFA") (together, the "Associations") respectfully submit this joint comment letter in response to question 22[1] in Regulatory Capital and Standardized Approach for Risk-weighted Assets of the Notice of Proposed Rulemaking issued on March 19, 2026, by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (the "Agencies") (the "Proposal").

This letter is informed by the Associations' extensive prior advocacy on the treatment of credit insurance under the U.S. Basel III capital framework, including our June 2023 White Paper (*see Appendix A,* "Credit Insurance as a Credit Risk Mitigant to Diversify Risk under the Capital Rules") and our joint comment letter submitted to the Agencies on January 16, 2024, in response to the 2023 Basel III Endgame Notice of Proposed Rulemaking (*see Appendix B*). The Associations also draw on data from our multi-year joint survey on private credit risk insurance utilization by banks, which has consistently demonstrated the reliability, scale, and systemic importance of credit insurance as a capital management tool for banks. Survey results indicate that more than 90% of participating large U.S. and U.S. subsidiary banking institutions would have interest in executing transactions with insurance companies for credit

[1] Question 22: *The agencies seek comment on the requirement that the entity has issued and outstanding an unsecured debt security without credit enhancement that is investment grade to meet the definition of an eligible guarantor. What, if any, alternatives to this requirement should the agencies consider to help ensure that eligible guarantors can be expected to perform on guarantees and what would the pros and cons of those alternatives be?*

risk mitigation if the eligible guarantor issue were clarified to recognize well-capitalized insurers as eligible guarantors.[2]

Questions 22 of the Proposal ask whether the current definition of "eligible guarantor" appropriately captures the range of counterparties whose credit support should be recognized for purposes of risk weight substitution under the credit risk mitigation framework, and whether alternatives are warranted. The Associations strongly support the Agencies' decision to solicit comment on this definition. We write specifically to address a structural gap in the current eligible guarantor definition that is highly relevant to our members' day-to-day credit portfolio management activities. Specifically, while the current definition captures parent or holding company entities that issue debt in the capital markets, it does not extend to operating subsidiaries acting as direct guarantors, even where those entities are part of a financially strong consolidated group and possess independent financial strength ratings.

This gap is not hypothetical and results in banking organizations holding exposures that are risk-weighted at levels significantly above the economic risk of the exposure. While this issue arises across corporate group structures, it is particularly acute in the insurance sector where investment grade operating entities do not themselves issue public debt but form part of a consolidated, prudentially regulated group in which a controlling entity issues investment-grade unsecured debt in the capital markets for the benefit of the broader group. This outcome is inconsistent with the capital-sensitivity objectives of the Proposal and places U.S. banks at a material competitive disadvantage relative to banking organizations in other Basel-aligned jurisdictions where market-based indicators of group creditworthiness are taken into account in a manner that does not rely solely on operating-entity debt issuance.

The Associations are hereby providing for your consideration the following addition in bold italics to paragraph (2)(i) in the definition of Eligible Guarantor under 12 CFR 3.2 Definitions:

(2) An entity (other than a special purpose entity):

(i) That at the time the guarantee is issued or anytime thereafter, has ***(or, if the entity is investment grade, is controlled by an entity that has)*** issued and outstanding an unsecured debt security without credit enhancement that is investment grade;

(ii) Whose creditworthiness is not positively correlated with the credit risk of the exposures for which it has provided guarantees; and

(iii) That is not an insurance company engaged predominately in the business of providing credit protection (such as a monoline bond insurer or re-insurer).

The inclusion of the parenthetical clause in paragraph (2)(i) above appropriately accommodates corporate group structures while recognizing, in the context of insurance, the direct guarantor is itself a financially strong, prudentially regulated operating entity. Insurance operating entities that provide guarantees are subject to comprehensive regulatory oversight, capital requirements, ongoing supervisory review, and maintain external investment-grade financial strength ratings. Accordingly, the creditworthiness of the eligible guarantor is based on the standalone financial strength of the regulated insurance entity, which is capable of meeting its obligations, rather than being viewed as dependent on the existence of debt issuance at the parent level. The proposed approach preserves the core policy objective of paragraph (i) without unnecessarily excluding highly rated operating insurance companies that do not themselves access public debt at the operating company level.

At the same time, the broader prudential framework applicable to insurance groups provides an additional layer of structural support, as holding companies are incentivized and, in practice, expected to support their regulated operating subsidiaries in order to maintain group solvency, ratings stability,

[2] IACPM survey of US Banks and US Subsidiary Bank members conducted May 28, 2026; respondents were among the 30 largest U.S. banking institutions.

and regulatory compliance. Where both the operating insurer and its group are recognized as investment grade, the combination of entity-level financial strength, external ratings, and group-level oversight and support offers a robust, reliable indicator of the guarantor's capacity to perform. Importantly, the revised language reinforces the expectation that an eligible guarantor (particularly a regulated insurance operating company) possesses financial resources, supervisory discipline, and market-validated credit standing necessary to honor its obligations in a timely manner.

Further, the financial institutions, as the end users of credit insurance, apply rigorous internal credit assessment processes, including the use of Financial Strength Ratings (FSR). These FSR frameworks contemplate an overall risk assessment of the insurer's creditworthiness, including its capacity to perform under stress scenarios. As a matter of policy and risk management practices, banks are guided by their internal FSR ratings, to determine the eligibility of investment grade insurers as eligible guarantors capable of timely performance, rather than relying solely on external credit ratings. The foregoing approach ensures that the evaluation of the guarantor's standalone financial strength and ability to honor its obligations.

ITFA is a trade association focused on global trade, forfaiting, supply chain, receivables financing, and risk mitigation thereof. Its members include banks, insurers, insurance brokers, lawyers, and others engaged in supporting global trade. The IACPM is an industry association whose members represent the world's largest banks and teams within those institutions who have responsibility for the prudential management of credit portfolios, including actively controlling concentrations, adding diversification, managing the return of the portfolio relative to the risk, and applying capital to new lending. In addition, its members also include investors, insurers, and reinsurers, which participate in credit risk transfer transactions.

Yours sincerely,

Sean Edwards
Chair
International Trade & Forfaiting Association

Som-lok Leung
Executive Director
International Association of Credit Portfolio Managers