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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

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Mr. Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
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Docket Nos. 1887, 1888, 1889
RIN 7100-AH20, 7100-AH21, 7100-AH22

Ms. Jennifer M. Jones, Deputy Executive Secretary
Attention: Comments/Legal OES
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Mr. Adam Cohen, Chief Counsel
Attention: Comment Processing
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Docket Nos. OCC-2026-0265, OCC-2026-0034

Dear Ms. Jones and Messrs. McDonough Cohen,

Thank you for having this comment period on such an important proposal. My enclosed comments and analysis are based on my three decades of professional experience as a financial risk consultant and trainer, as well as my previous profession in capital and foreign exchange markets at JPMorgan, BT,AlexBrown and the Federal Reserve Bank of New York.

Best regards,
Mayra Rodriguez Valladares

Encl.

Proposed Basel III Capital Reform — Market Risk Rule

Submitted to: Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of the Comptroller of the Currency

Date: June 18, 2026

Re: Regulatory Capital Rule: Category I and II Banking Organizations — Market Risk Framework (Fed. Reg. Docket No. R-1887)

I am submitting this comment letter in response to the joint comment letter submitted on June 18, 2026 by the Bank Policy Institute (BPI), American Bankers Association (ABA), Financial Services Forum, U.S. Chamber of Commerce, and Consumer Bankers Association (collectively, "the Trades") regarding the proposed Basel III capital reform for Category I and II banking organizations. I appreciate the industry's technical engagement with a genuinely complex rulemaking. However, I respectfully submit that the industry's core arguments—particularly on operational risk calibration, market risk over-capitalization, and implementation timelines—rest on methodological choices and self-reported data that warrant careful independent scrutiny.

Most importantly, I urge bank regulators to weigh in on this key point: **the relief the Trades are seeking, in aggregate, could meaningfully weaken the capital buffers that protect depositors, taxpayers, and financial stability.** The 2008 financial crisis, the March 2020 Treasury market dysfunction, and the 2023 regional bank failures all demonstrated that tail-risk events are routinely underestimated—not overestimated—by financial institutions. Hence, the burden of proof for further relief lies squarely with the banking industry.

Industry Claims vs. Empirical Reality: A Summary

The BPI, ABA, Financial Services Forum, U.S. Chamber, and Consumer Bankers Association are asking you the bank regulators to:

1. Reduce operational risk capital — cap the Business Indicator coefficient at a flat 12% (rather than the tiered 12/15/18%), which their own data says would cut operational risk RWAs by $272 billion.

2. Reduce market risk and CVA capital — arguing the Fundamental Review of the Trading Book (FRTB) standard and the Global Market Shock stress test double-count the same tail risks, producing capital exceeding "actual economic exposure."

3. Loosen credit risk definitions — preserve the broad definition of "unconditionally cancelable" commitments (low capital charge), cut mortgage servicing asset risk weights from 250% to 100%, and inflation-adjust SME and retail thresholds.

4. Delay implementation — mandatory effective date no earlier than January 1, 2028.

5. Add guardrails on stress testing — constrain the Fed's ability to change Global Market Shock scenarios without advance notice.

My Core Arguments

- The QIS is self-reported. All the impact numbers come from the eight globally systemically important U.S. banks. These parties have the strongest financial incentive to produce high estimates. Consequently, independent verification is essential before those figures drive calibration.
- The 2008 comparison is manipulated. The Trades compare combined capital (20.9% of revenues) to "2008 losses" (15.5%), but their own footnote admits ORX counts all crisis-era litigation settlements as 2008 events. The actual single-year cash impact was significantly lower, making the benchmark misleading.
- FRTB exists because internal models failed. During 2007–2009, banks' Value at Risk (VaR models) understated trading losses by 3x–10x (Basel Committee, 2019). The argument that the standardized measure now "overstates" risk must overcome that documented failure.
- GSIB surcharge is not the operational risk buffer. The surcharge addresses systemic externalities and failure costs to the broader system — not a firm's internal loss-absorption capacity. BIS research confirms these are distinct risk dimensions.
- The pattern of cumulative concessions itself is a risk. Since 2022, bank regulators have already cut proposed capital increases dramatically, eased SLR requirements, and revised stress testing. Each further concession reduces the post-2008 firewall that has prevented a repeat of the financial crisis.
- Depositors and taxpayers bear the tail risk. The FDIC DIF ($125.3 billion, Q4 2025) and ultimately Congressional appropriations back deposit insurance. Every dollar of GSIB capital reduction increases, at the margin, the probability that a stress event reaches the public backstop.

Industry Claim	Industry's Assertion	Empirical Counter-Evidence
Operational risk is over-capitalized	Combined SCB + RWA charge exceeds worst-case losses; uniform 12% BI coefficient warranted	ORX data cited by the Trades shows 20.9% combined capital ratio vs. 15.5% 2008 losses—but 2008 losses were spread over years, not one quarter. Post-Dodd-Frank litigation costs remain substantial.
Market risk capital overstates actual exposure	GMS + FRTB measures double-count extreme scenarios	VaR models failed catastrophically in 2008. FRTB was designed precisely because banks' own models underestimated tail risk. Industry estimates come from the eight largest banks—parties with maximum financial incentive.
Operational risk charge duplicates GSIB surcharge	GSIB surcharge already captures size/complexity risk; adding BI scaling is redundant	GSIB surcharges are calibrated for systemic externalities, not internal operational loss capacity. BIS research (2023) finds the two measures address distinct risk dimensions.
Implementation by Jan 1, 2028 is sufficient	Firms need time to build systems; 2028 deadline is adequate	The original Basel III accord was agreed in 2010; the U.S. is already 16 years into implementation. Phased approaches have consistently resulted in softer final rules.

Detailed Rebuttal by Issue

A. Operational Risk Calibration

The Industry's Argument

The Trades argue that the combined capital requirement for operational risk—the proposed Business Indicator (BI) charge applied as part of risk-weighted assets, plus the Stress Capital Buffer

(SCB) overlay—produces a total requirement (20.9% of revenues) that exceeds the worst historical operational loss year, 2008 (15.5% of revenues). They recommend capping the BI coefficient at a flat 12% to reduce what they call "over-calibration."

My Rebuttal

I raise the following concerns with this analysis:

- The 2008 comparison is methodologically misleading. The Trades' own footnote acknowledges that ORX data consolidates losses by event date, meaning all litigation settlements from 2009 through 2014 are counted as '2008' losses. The actual peak-year cash impact was far lower. Using realized cash outflows rather than event-date accounting would produce a materially lower '15.5%' figure—weakening the Trades' own benchmark.
- Post-crisis operational losses have remained elevated. U.S. GSIB legal settlements totaled over $321 billion between 2010 and 2023, according to the Government Accountability Office (GAO). Regulatory fines, cyber incidents, and trading losses due to rogue traders continue. Recent history does not support the idea that operational risk is now captured adequately and that it can be reduced significantly.
- The proposed 12% uniform coefficient would reduce operational risk RWAs by $272 billion per the Trades' own QIS. This is not a "calibration correction"—it is a material capital reduction of approximately $27 billion in CET1 terms, equivalent to reducing the cushion available to absorb catastrophic operational events. For context, the 2012 JPMorgan London Whale trading loss alone reached $6.2 billion in a single quarter (OCC, 2013).
- The claim that the GSIB surcharge already captures size-related operational risk is not supported by the GSIB surcharge's own design rationale. As articulated in the Federal Reserve's 2015 GSIB surcharge final rule, that surcharge "reflects the systemic footprint of a firm and the costs its failure would impose on the broader financial system"—not the firm's internal operational loss capacity. These are distinct risks addressed by distinct instruments.

On the fundamental question of safety and soundness: If operational risk capital is reduced by $272 billion in RWA terms, the buffer available to absorb conduct failures, cyber events, and rogue trading is materially smaller. Any subsequent operational shock of the magnitude seen in 2008–2012 could impair a firm's CET1 ratio below its SCB minimum, triggering restrictions on distributions—or, in a stress scenario, requiring taxpayer-backed intervention.

B. Market Risk and CVA Over-Calibration

The Industry's Argument

The Trades argue that the FRTB market risk framework and the Global Market Shock (GMS) component of stress testing both target extreme tail events, creating duplicative capital charges. They further argue that CVA risk is double-counted through both the SCB and proposed RWA charges, resulting in capital requirements that "exceed a firm's actual economic exposure."

My Rebuttal

- The VaR model failure of 2008 is dispositive. The FRTB was created specifically because banks' internal VaR models—the predecessor to the models the Trades now favor—catastrophically understated trading book losses during 2007–2009. The Basel Committee's own post-crisis review found that trading book losses exceeded 99th-percentile VaR estimates by factors of three to ten times at major banks. The argument that the standardized measure now "overstates' risk must overcome that documented record.
- Industry estimates of capital impact come from conflicted sources. The quantitative impact study (QIS) cited throughout the letter was conducted by the eight largest U.S. Category I firms—the very institutions with the strongest financial interest in producing high estimates of regulatory burden. The agencies should commission or validate an independent QIS before accepting these figures as the basis for calibration decisions.
- CVA risk is not adequately captured by the GMS alone. The GMS is calibrated on historical stress scenarios. CVA risk, by contrast, is driven by changes in counterparty credit quality and volatility across long-dated derivative portfolios. These can diverge sharply from historical analogs, as seen during the March 2020 credit spread widening (Federal Reserve Financial Stability Report, May 2020). A separate CVA RWA charge provides a structural, non-scenario-dependent buffer for this risk.
- The Trades' request for 'guardrails' on GMS scenarios is a regulatory capture concern. Requiring advance disclosure of stress scenario parameters would allow large trading firms to optimize their portfolios around known stress scenarios, hollowing out the test's protective value. The Federal Reserve's stress testing framework has been validated over multiple cycles as an effective macroprudential tool.

> *"The FRTB framework was developed to address the shortcomings of the Basel II.5 market risk framework that became evident during the global financial crisis, when trading book losses far exceeded what the previous framework had anticipated. — Basel Committee on Banking Supervision, Explanatory Note on Minimum Capital Requirements for Market Risk (January 2019)"*

C. Credit Risk: Commitment Definitions and Mortgage Servicing Assets

The Industry's Argument

The Trades urge retention of current definitions of "commitment" and "unconditionally cancelable" (UCC), arguing that the proposed changes would impose unquantifiable capital increases on credit card and revolving credit facilities. They also seek a reduction in the MSA risk weight from 250% to 100%.

My Rebuttal

- The UCC definition change exists for a reason. Banks have historically classified credit card lines and revolving commitments as UCC—and thus attracting low credit conversion factors (CCFs)—on the legal theory that they can be canceled. In practice, rapid cancellation during a consumer credit shock can accelerate financial system stress (as seen in 2008–2009 when mass credit line cuts contributed to consumer deleveraging). Regulators are correct to scrutinize whether these commitments are truly "unconditional."

- MSA risk weight reduction to 100% deserves scrutiny. Mortgage servicing assets are highly sensitive to interest rate changes and prepayment risk. Their value collapsed in prior rate cycles (notably 2002–2004 and 2013). The OCC's Comptroller's Handbook on Mortgage Banking notes that MSA values are "volatile and difficult to hedge." A 150-percentage point reduction in risk weight for assets with this profile is a significant safety-and-soundness concern.
- Inflation-adjusting thresholds is not a neutral recalibration. The Trades argue that the $50 million SME threshold and $1 million retail threshold should be adjusted for inflation. While this is superficially reasonable, it effectively expands the universe of borrowers receiving favorable capital treatment. Regulators should examine the credit quality distribution of exposures that would gain preferred treatment before accepting this adjustment.

D. Implementation Timeline

The Industry's Argument

The Trades request a mandatory implementation date no earlier than January 1, 2028, with immediate early adoption permitted.

My Rebuttal

- Basel III was finalized in December 2010. The U.S. banking industry has had 16 years to prepare its systems for standardized risk-weight calculations. A 2028 mandatory date is not unreasonable, but requests for further extensions should be viewed skeptically given this timeline.
- Early adoption provisions benefit large banks asymmetrically. Permitting early adoption while allowing a later mandatory date means the largest, best-resourced banks can adopt when it is advantageous to them—and delay when it is not. This creates a competitive dynamic that may disadvantage community banks and non-GSIB institutions.
- Regulatory delays have historically produced softer rules. Each extension of Basel implementation in the U.S. has been accompanied by further lobbying for substantive concessions. Regulators should weigh whether a 2028 date reflects genuine operational necessity or a strategic window for additional relief.

IV. The Central Question: Does the Bank Industry's Position Threaten Safety and Soundness?

I respectfully submit that the bank regulatory agencies must weigh the following evidence when considering the Trades' recommendations in aggregate:

1. The capital relief sought is very large

The Trades' own QIS shows that applying a uniform 12% BI coefficient would reduce operational risk RWAs by $272 billion—approximately $27 billion in CET1 terms. When combined with market risk and CVA recalibrations, the aggregate capital reduction could approach or exceed $87.7 billion in CET1, the figure already embedded in the March 2026 proposals (Fox Rothschild, March

2026). Further reductions, as the Trades seek, would bring total capital levels meaningfully closer to the pre-2008 regime.

2. Historical crises occurred when banks were using their own models

> *"The proposals would increase minimum requirements for operational risk and market risk... The Board expects both sets of revisions to improve risk sensitivity and coherence of the capital framework. — Federal Reserve Board, Basel III NPR, 91 Fed. Reg. 14,960 (March 27, 2026)"*

The 2007–2009 financial crisis revealed that internal models used by large banks produced risk-weighted asset figures that were significantly lower than they should have been. A 2013 Federal Reserve study found that risk-weight dispersion across major banks—for nominally identical portfolios—ranged from 6% to 90% of notional value, demonstrating that internal models lacked comparability or conservatism. The Basel Committee's Regulatory Consistency Assessment Program (RCAP) reached similar findings. Standardized approaches are more conservative precisely because they are not subject to these model optimization incentives.

3. The taxpayer and depositor protection argument

Federal deposit insurance backstops depositor losses. The FDIC's Deposit Insurance Fund (DIF) held $125.3 billion as of Q4 2025 (FDIC Quarterly Banking Profile, Q4 2025). The DIF is funded by bank premiums—but in a systemic crisis, Congressional appropriation (i.e., taxpayer funds) backstops the fund. Every dollar of capital reduction at GSIBs increases, at the margin, the probability that a stress event imposes costs on the DIF and ultimately on taxpayers.

As former FDIC Chair Sheila Bair has written: *"Capital is the single most important safeguard against bank failure. When banks are adequately capitalized, they can absorb losses. When they are not, the losses land on depositors and taxpayers."* (Bair, *Bull by the Horns*, 2012)

4. The March 2020 lesson

Treasury market dysfunction in March 2020—which required $1.6 trillion in Federal Reserve emergency asset purchases (Federal Reserve H.4.1 statistical releases, March–April 2020)—occurred when large U.S. banks were better capitalized than at any point since the 1990s. The disruption originated primarily in leveraged nonbank strategies (hedge fund basis trades), not bank capital adequacy. The lesson regulators drew was that Treasury market structure—not bank capital levels—was the proximate vulnerability. The Trades' implicit argument that reducing bank capital would improve Treasury market resilience is not supported by this episode.

5. The iterative concession pattern

Since 2022, U.S. regulators have: (a) dramatically scaled back Basel Endgame capital requirements from the original 2023 proposals; (b) issued revised stress testing transparency rules favoring banks; (c) reduced Supplementary Leverage Ratio requirements through the eSLR final rule; and (d) proposed removing Treasuries from SLR calculations entirely. The current letter seeks additional concessions on top of an already-substantially-relieved framework. Regulators should assess whether this iterative pattern of concessions cumulatively undermines the post-2008 capital framework that has demonstrably prevented a repeat of 2008.

V. Recommendations to the Bank RegulatoryAgencies

Considering the foregoing, I respectfully recommend the following:

1. **Commission an independent QIS.** The agencies should not rely solely on the self-reported QIS from the eight Category I firms when calibrating capital requirements. An independently validated impact study—using the agencies' own supervisory data—would provide a more reliable basis for calibration decisions.
2. **Retain the tiered BI coefficients.** The scaling of operational risk BI coefficients (12%/15%/18%) reflects the empirical finding that operational risk exposure grows more than proportionally with business volume. This finding, supported by Basel Committee analysis (2014, 2016), should not be abandoned without equivalent revalidation using current data.
3. **Maintain separate CVA risk capital.** CVA risk is not captured fully by the GMS and should retain a separate RWA charge to ensure structural, non-scenario-dependent protection against counterparty credit deterioration.
4. **Resist guardrails on stress scenario design.** Advance disclosure of stress scenario parameters would allow trading book optimization and undermine the test's effectiveness as a macroprudential tool.
5. **Scrutinize MSA risk weight reduction.** Before reducing the MSA risk weight to 100%, conduct a quantitative review of MSA valuation volatility across recent interest rate cycles and assess the adequacy of hedging at current and proposed risk weight levels.
6. **Hold the January 1, 2028 implementation date.** No further extensions of the Basel III implementation timeline are warranted given the 16-year runway since the Basel III accord was finalized.
7. **Conduct a cumulative impact assessment.** The agencies should publicly evaluate the aggregate capital impact of all regulatory relief measures since 2022 (eSLR, revised Basel Endgame, stress test changes, and any final rule concessions) before granting further relief. This assessment should explicitly address implications for the FDIC Deposit Insurance Fund and taxpayer exposure.

VI. Conclusion

I submit this brief with genuine respect for the technical expertise and good-faith engagement of the Trades and the bank regulatory agencies alike. The Basel III capital framework represents a hard-won lesson from the most severe financial crisis since the Great Depression. The Trades' technical arguments deserve careful consideration, and some—particularly the point about overlap between the SCB and RWA frameworks—identify real design tensions worth addressing.

However, the aggregate direction of the Trades' recommendations—lower operational risk coefficients, reduced market and CVA risk charges, constrained stress testing, narrower definitions of commitments, lower MSA risk weights—points uniformly toward less capital. This is the same direction the industry has urged in every major regulatory cycle since 2010, and regulators have repeatedly accommodated those requests. And ordinary Americans are left to pay the consequences.

The bank regulatory agencies must ask themselves: at what point does further accommodation cross the line from sensible calibration to imprudent capital erosion? The evidence of history—from 2008, from March 2020, from the 2023 regional bank failures—suggests that line is closer than the Trades' letter implies. The ultimate protection belongs not to shareholders and creditors of large banks, but to the depositors, taxpayers, and the broader economy whose stability depends on adequate bank capital.

Respectfully submitted,

Mayra Rodríguez Valladares

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