

BRENDAN SHEEHAN

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

Name: Brendan Sheehan

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To Whom It May Concern,

I am submitting this comment as both a bank customer and investor regarding the proposed prudential treatment of cryptoasset exposures, specifically the application of a 1,250% risk weight to certain digital assets such as Bitcoin.

The primary concern is not whether digital assets are volatile or risk-free. They are clearly volatile, and banks should be required to manage those risks appropriately through capital, liquidity, operational, and custody standards. Rather, the concern is whether the proposed framework calibrates those risks in a manner that is economically consistent, empirically justified, and aligned with broader principles of risk-sensitive banking regulation.

A 1,250% risk weight effectively requires near dollar-for-dollar capital backing against exposure. This treatment appears less like a measured risk framework and more like a de facto prohibition on meaningful participation by regulated banking institutions.

The proposal raises several questions that deserve further consideration:

1. Distinction Between Market Risk and Credit Risk

Bitcoin and similar assets may exhibit substantial price volatility, but spot holdings do not contain traditional counterparty default risk in the same manner as unsecured credit exposures, distressed debt, or complex securitization products. Applying the maximum punitive Basel treatment historically associated with certain failed structured credit instruments may not accurately reflect the nature of the underlying risk.

2. Need for Risk-Sensitive Calibration

Regulatory frameworks are generally most effective when they differentiate between varying forms of exposure. A fully reserved spot Bitcoin position held with qualified custody is materially different from leveraged crypto lending, opaque DeFi exposure, or speculative derivatives activity. A more granular framework could better align capital treatment with actual economic risk rather than assigning a single punitive category.

3. Potential for Regulatory Displacement

Excessively restrictive capital treatment may unintentionally push digital asset activity away from highly regulated banking institutions and toward less transparent or less supervised entities. If regulators are concerned with operational integrity, custody standards, anti-money laundering controls, and systemic visibility, there is a strong argument for encouraging such activity to occur within well-capitalized and supervised institutions rather than outside them.

4. Market Development and Evolving Infrastructure

Digital asset markets, custody infrastructure, surveillance capabilities, liquidity depth, and institutional participation have evolved significantly over recent years. Prudential frameworks should remain adaptive and responsive to changing market structure rather than permanently anchored to earlier periods of market immaturity.

5. Importance of Neutral Regulatory Principles

Capital regulation should ideally function as a risk-management framework rather than an instrument for selectively discouraging legally traded asset classes. Free market systems operate most efficiently when institutions are permitted to allocate capital within transparent and appropriately risk-adjusted regulatory standards. The role of prudential supervision should be to ensure resilience and transparency, not to predetermine market outcomes through effectively prohibitive capital charges.

I respectfully encourage the Federal Reserve and Basel policymakers to further evaluate whether the current calibration appropriately reflects actual economic risk, market structure, and the long-term objective of maintaining financial activity within regulated and supervised institutions.

Thank you for your consideration.

Sincerely,

Brendan Sheehan