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Proposal and Comment Information

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Submitter Information

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June 15, 2026

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket Nos. 1887, 1888, 1889
RIN 7100-AH20, 7100-AH21, 7100-AH22

Jennifer M. Jones, Deputy Executive Secretary
Attention: Comments/Legal OES
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064-AF29, 3064-AG23

Adam Cohen, Chief Counsel
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E–218
Washington, DC 20219
Docket Nos. OCC-2026-0265, OCC-2026-0034

Re: Regulatory Capital Rules: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations; Regulatory Capital and Standardized Approach for Risk-Weighted Assets; Risk-Based Surcharges for Global Systemically Important Bank Holding Companies

Dear Mr. McDonough, Ms. Jones, and Mr. Cohen:

We write to express serious concerns about the three notices of proposed rulemaking issued on March 19, 2026, that would weaken the regulatory capital framework for U.S. banking organizations.

These proposals would materially lower capital requirements for the largest and most systemically important banks, especially in combination with the recent changes to the enhanced supplementary leverage ratio (eSLR) and the proposed evisceration of the Federal Reserve's stress tests. The cumulative effect will be to reduce the resilience of the U.S. banking system and, by extension, the stability of the broader financial system.

The agencies fail to justify the scale of capital reductions the proposals would produce. The evidence they invoke—on optimal capital levels, lending, and the migration of activity to nonbanks—does not support, and in several respects directly contradicts, the proposed cuts. The proposals weaken the systemic risk surcharge without a principled basis, contain more than 20 material downward deviations from the internationally agreed-upon Basel III standards, misapply the nonbank migration rationale, and eliminate the dual-stack calculation requirement that serves as an important safeguard against model error and regulatory arbitrage. Our comments focus on each of these areas, followed by a discussion of additional issues that bear on the integrity of the capital framework.

I. The Evidence Does Not Justify the Cumulative Reduction in Capital Requirements

The agencies project that the combined proposals will reduce aggregate common equity tier 1 (CET1) requirements by approximately $87.7 billion, lowering the system-wide CET1 ratio from 13.4 percent to roughly 12.9 percent.[1] The agencies assert that this level remains within a 10–14 percent "optimal range" identified in a foundational 2010 study by the Basel Committee on Banking Supervision (BCBS).[2] However, this characterization is misleading for several reasons.

First, the agencies' reliance on the BCBS 2010 range is selective. More recent academic literature yields a wide range of estimates—our 2025 analysis, which the agencies cite, finds optimal risk-weighted capital ratios spanning 6 to 25 percent.[3] The agencies provide no principled basis for anchoring below the midpoint of this broader range. Indeed, some recent studies yield estimates well above the midpoint. Firestone et al. find an optimal tier 1 capital range of 13–26 percent for the U.S. banking system.[4] Soederhuizen et al. estimate an optimal CET1 ratio of 16–31 percent.[5] Miles, Yang, and Marcheggiano find an optimal range of 16–20 percent for global banks.[6] The agencies' NPR cites these studies, yet concludes that a projected 12.9 percent CET1 ratio is "reasonable" without adequately explaining why estimates well below the midpoint of the range should be preferred.

Second, the proposals' impact assessment is *static*. It does not account for the *dynamic* balance-sheet optimization that banks will undertake in response to a reduction of requirements. As we noted in our August 2025 comments on the eSLR proposal, banks are likely to respond to these reforms by adjusting their risk-weighted assets to further reduce required capital funding, potentially until the leverage ratio again becomes binding.[7] The agencies' estimates naively ignore the well-documented regulatory arbitrage behavior that banking organizations routinely employ to minimize their capital requirements.

Third, there is substantial evidence that the decline in global systemically important bank (GSIB) leverage ratios from their 2016 peak of approximately 9 percent to roughly 7 percent in recent years reflects precisely this kind of regulatory arbitrage.[8] This decline largely preceded the pandemic and the

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[1] 91 FED. REG. 14,952, 15,128 (Mar. 27, 2026).
[2] *Id.* at 15,128 (citing BASEL COMM. ON BANKING SUPERVISION, AN ASSESSMENT OF THE LONG-TERM ECONOMIC IMPACT OF STRONGER CAPITAL AND LIQUIDITY REQUIREMENTS (2010)).
[3] Stephen G. Cecchetti, Jeremy C. Kress & Kermit L. Schoenholtz, *Basel Endgame: Bank Capital Requirements and the Future of International Standard Setting*, 39 J. ECON. PERSP. 149 (2025) [hereinafter Cecchetti, Kress & Schoenholtz (2025)].
[4] Simon Firestone, Amy Lorenc & Ben Ranish, *An Empirical Economic Assessment of the Costs and Benefits of Bank Capital in the United States*, FED. RESERVE BANK OF ST. LOUIS REV., Third Quarter 2019.
[5] Beau Soederhuizen, Gerrit Hugo van Heuvelen, Rob Luginbuhl & Bert van Stiphout-Kramer, *Optimal Capital Ratios for Banks in the Euro Area*, 68 J. FIN. STABILITY (Dec. 2023).
[6] David Miles, Jing Yang & Gilberto Marcheggiano, *Optimal Bank Capital*, 123 ECON. J. 1 (2013).
[7] Stephen G. Cecchetti, Kermit L. Schoenholtz & Richard Berner, *Comment Letter to U.S. Bank Regulatory Agencies Regarding Proposed Modifications to Leverage Ratio Standards for GSIBs* (Aug. 2025), https://www.regulations.gov/comment/OCC-2025-0006-0014; Jeremy C. Kress, *Comment Letter Regarding the Regulatory Capital Rule* (Aug. 2025), https://www.regulations.gov/comment/OCC-2025-0006-0011.
[8] Richard Berner, Stephen G. Cecchetti & Kermit L. Schoenholtz, *U.S. Regulators Should Raise — Not Lower — Big Bank Capital Requirements*, MONEY AND BANKING (Sept. 21, 2025), https://www.moneyandbanking.com/commentary/2025/9/21/us-regulator-should-raise-not-lower-big-bank-capital-requirements.

associated expansion of the Federal Reserve's balance sheet. Growth in reserves and corresponding liabilities therefore cannot account for it. Instead, the decline reflects banks' increased risk exposure without commensurate increases in capital—behavior that the agencies should be working to reverse, not accommodate by reducing requirements.

Fourth, the empirical evidence does not support the agencies' assumptions that higher capital requirements have meaningfully constrained credit supply and bank profitability. As we have documented, U.S. banks significantly increased capital levels from 2009 to 2016 while simultaneously expanding lending and consistently outperforming their European peers.[9] Rather than viewing existing bank capital requirements as hindering the U.S. economy, the agencies should recognize them as a source of competitive strength.

Fifth, the agencies' claim that cutting capital requirements will boost lending is contrary to the evidence. In fact, better capitalized banks lend more throughout the economic cycle, particularly during periods of economic stress, when credit availability matters most.[10] Rather than deploying excess capital into new lending, banks are far more likely to return it to shareholders. Indeed, in the first quarter of 2026, the largest U.S. banks returned a record $33 billion to shareholders through share buybacks, in direct response to the agencies' deregulatory agenda.[11] Further weakening capital requirements will not expand credit availability—it will simply fund shareholder distributions while leaving the financial system less resilient to shocks.

II. The GSIB Surcharge Recalibration Lacks a Principled Basis

Of the $87.7 billion aggregate CET1 reduction identified above, $33 billion flows from the proposed revisions to the GSIB surcharge, which applies solely to the largest and most systemically important banks.[12] While we support certain technical improvements—such as using averaged data rather than year-end snapshots and adopting narrower scoring bands to reduce cliff effects—we strongly object to the proposed recalibration of the Method 2 coefficients and to the treatment of short-term wholesale funding.

Arbitrary coefficient recalibration. The proposal would make a one-time downward adjustment to the Method 2 systemic indicator coefficients to offset the divergence between Method 1 and Method 2 scores observed since 2019. As Governor Barr noted, this approach replaces principled, risk-based calibration with an arbitrary alignment to the less stringent Method 1 approach. Methods 1 and 2 measure systemic risk differently—that is their purpose. There is no analytical basis for expecting them

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9 Cecchetti, Kress & Schoenholtz (2025), *supra* note 3; *see also* Stephen G. Cecchetti & Kermit L. Schoenholtz, *Basel Endgame: Bank Capital Requirements and the Future of International Standard Setting*, MONEY AND BANKING (July 27, 2025), https://www.moneyandbanking.com/commentary/2025/7/10/basel-endgame-bank-capital-requirements-and-the-future-of-international-standard-setting.

10 BASEL COMM. ON BANKING SUPERVISION, THE COSTS AND BENEFITS OF BANK CAPITAL — A REVIEW OF THE LITERATURE 10 (Bank for Int'l Settlements, Working Paper No. 37, June 2019), https://www.bis.org/bcbs/publ/wp37.pdf.

11 Joshua Franklin & Akila Quinio, *Largest US Banks Spend Record $33bn on Share Buybacks*, FIN. TIMES (Apr. 15, 2026), https://www.ft.com/content/67d444ab-bfcf-49a1-ae46-ff6e78bc8c64.

12 *Statement on Bank Capital Proposals by Governor Michael S. Barr*, BD. OF GOVERNORS OF THE FED. RESERVE SYS. (Mar. 19, 2026), https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20260319.htm [hereinafter Barr Statement].

to move in lockstep, and no reason to recalibrate one downward simply because it diverges from the other.

Short-term wholesale funding. The proposal would recalibrate the short-term wholesale funding (STWF) component to account for 20 percent of aggregate Method 2 scores, down from the approximately 30 percent share it currently represents.[13] Banks' reliance on STWF relative to their risk-weighted assets has grown from approximately 30 percent to 40 percent between 2016 and 2024.[14] Reducing the weight of STWF in the surcharge calculation perversely rewards the accumulation of the funding vulnerability the framework is designed to address. It also runs counter to the well-grounded argument that capital requirements should be more closely linked to a bank's liquidity risk profile (see Section VI.B. below).

Indexation of coefficients. The proposal to index Method 2 coefficients to nominal economic growth creates a ratchet effect that will automatically dilute the GSIB surcharge over time. Yet, growth in the real economy does *not* necessarily reduce the systemic risk posed by large, complex banking organizations. Indeed, systemic risk tends to increase during periods of extended economic expansion as leverage and interconnections grow.

III. Material Downward Deviations from the Basel III Accord Threaten International Cooperation in Bank Regulation

The proposals contain more than 20 material downward deviations from the internationally agreed-upon Basel III standards.[15] Taken together, these deviations significantly weaken the U.S. capital framework relative to the international baseline. We highlight three areas of particular concern.

Market risk: floors replaced by caps. The Basel III framework includes an output floor based on the standardized approach to ensure that firms' internal models do not produce unwarrantedly low capital requirements. The U.S. proposal omits this floor and instead uses the standardized approach as a *cap* on market risk capital requirements. The proposed approach inexplicably inverts one of the cornerstones of the 2017 Basel reforms.[16]

Risk factors that are difficult to model reliably. The proposal reduces capital requirements when banks use market risk factors with insufficient market price data. This directly undermines the Basel framework's goal of ensuring adequate capitalization for risks that banks cannot reliably model—the same types of risks that proved most dangerous in 2008.

Securitization treatment. The proposal extends preferential "p-factor" calibration – the supervisory parameter that determines capital charges on securitization tranches – to all securitizations, rather than limiting it (as Basel III does) to those meeting certain structural and transparency standards. This relaxation removes an important incentive for sound securitization practices.

If the United States deviates materially from the Basel framework it helped design, foreign jurisdictions will have far less incentive to achieve or maintain their own compliance. If adopted as proposed, these

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[13] 91 Fed. Reg. 14,908, 14,916 (Mar. 27, 2026).
[14] Barr Statement, *supra* note 12.
[15] *Id.*
[16] *See* Cecchetti, Kress & Schoenholtz (2025), *supra* note 3, at 159–62.

deviations may well trigger a regulatory race to the bottom similar to that which preceded the 2008 crisis.[17]

IV. The Agencies Misapply the Nonbank Migration Rationale

The agencies claim that existing capital requirements have driven traditional banking activities into the less-regulated nonbank sector and that reducing capital requirements for banks will draw these activities back. This reasoning is flawed for at least three reasons.

First, the fraction of total U.S. credit to the private nonfinancial sector provided by banks has remained relatively stable at 30 to 35 percent since the early 2000s.[18] In fact, banks actually increased their share of credit provision to the nonbank sector between 2011 and 2016, as the United States implemented the initial Basel III increase in capital requirements.[19]

Second, shifting risk from systemically important banks to nonbanks that are not systemically important and are less reliant on debt financing may be desirable, provided those nonbanks are appropriately supervised.[20]

Finally, when activities migrate to less-regulated nonbanks without reducing systemic risk, the appropriate policy response is to strengthen oversight and regulation of nonbanks—not to weaken bank capital standards to match less-regulated competitors. Put differently, the correct inference is to widen the regulatory perimeter, not weaken the rules inside it.

V. The "Single Stack" Approach Removes a Valuable Safety Net

The proposal would require the largest banks to compute risk-weighted assets only under the expanded risk-based approach, eliminating the current dual-stack requirement. The dual-stack requirement serves a valuable prudential function. Since different approaches capture different dimensions of risk, requiring both provides an important cross-check against model error and regulatory arbitrage. Given the increasing availability of computational tools, the administrative burden of maintaining a dual calculation is modest and declining—a poor justification for sacrificing a valuable prudential cross-check. Dropping the standardized calculation also appears to violate the Collins Amendment, and the agencies have provided no legal justification supporting the proposed single-stack approach.[21]

[17] On the separability of Basel III compliance from the level of capital requirements, see Cecchetti, Kress & Schoenholtz (2025), *supra* note 3, at 165–67.
[18] Cecchetti, Kress & Schoenholtz (2025), *supra* note 3, at 160.
[19] Stephen G. Cecchetti & Kermit L. Schoenholtz, *Setting Bank Capital Requirements*, MONEY AND BANKING (Oct. 12, 2020), https://www.moneyandbanking.com/commentary/2020/10/11/setting-bank-capital-requirements.
[20] *See* Cecchetti, Kress & Schoenholtz (2025), *supra* note 3, at 161–62.
[21] For details on the proposals' apparent noncompliance with the Collins Amendment, see the comment letter filed by Jeremy Kress & Graham Steele.

VI. Other Issues Bearing on the Capital Framework

Several additional concerns warrant attention. While distinct from the core objections above, each bears directly on the soundness of the capital regime.

A. The Proposed Risk-Based Capital Reductions Are Especially Dangerous in Light of the Weakened eSLR

The proposed reductions to risk-based capital requirements cannot be evaluated in isolation. The agencies justified their recent eSLR reductions on the premise that risk-based requirements would remain a binding constraint on the largest banks. The current proposals undermine that premise. As Governor Barr documented, for the largest bank holding companies, the current proposals produce aggregate tier 1 capital requirement reductions that are 60 basis points greater than they would have been without the eSLR changes; for the largest depository institutions, the difference is 230 basis points.[22] If the agencies proceed with weakening risk-based requirements, they should commit to revisit the eSLR calibration to preserve the overall level of capital that the integrated framework provides.

B. The Interaction of Solvency and Liquidity Risk

The proposals ignore a fundamental lesson of the 2023 banking stress: capital adequacy and liquidity risk are deeply intertwined. As Richardson, Savov, and Schnabl demonstrate, the deposit franchise that ordinarily serves as a hedge against interest rate risk fails when deposits lose their "stickiness"—as occurred during the runs on SVB, Signature Bank, and First Republic.[23] Drechsler, Savov, Schnabl, and Wang show that optimal regulation requires higher capital buffers (particularly when interest rates rise) for banks holding longer-duration assets with large uninsured deposit franchises.[24]

By reducing capital requirements without linking them to banks' liquidity risk profiles, the agencies are ignoring the mechanism that caused the 2023 banking stress. At a minimum, capital requirements should include an add-on for banks whose combination of long asset duration and high reliance on uninsured deposits makes them particularly vulnerable to runs.

C. AOCI Recognition Is Overdue. The Agencies Should Also Reconsider HTM Accounting.

We support requiring Category III and IV banks to include Accumulated Other Comprehensive Income (AOCI) in regulatory capital. Frankly, this reform should have been adopted years ago. The 2023 failures of Silicon Valley Bank, Signature Bank, and First Republic demonstrated what happens when large banks are not required to capitalize against unrealized losses in their securities portfolios. AOCI recognition for Category III and IV banks is table stakes.

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[22] Barr Statement, *supra* note 12.

[23] Matthew P. Richardson, Alexi Savov & Philipp Schnabl, *Banks, Interest Rate Risk and Systemic Risk — Theoretical and Historical Perspectives*, in SVB AND BEYOND: THE BANKING STRESS OF 2023, at 35 (Viral V. Acharya et al. eds., 2023).

[24] Itamar Drechsler, Alexi Savov, Philipp Schnabl & Olivier Wang, *Deposit Franchise Runs*, J. FIN. (forthcoming).

The agencies should go further and reconsider the role of held-to-maturity (HTM) accounting in the regulatory capital framework. As Kim, Kim, and Ryan have shown, the accounting distortions arising from HTM classification are substantially larger than those arising from the AOCI filter alone.[25] Their research indicates that banks classify securities as HTM primarily to obtain preferred accounting and regulatory capital treatment, not because of a genuine intent to hold to maturity. In fact, four of the five banks for which the AOCI filter was reinstated under the 2019 tailoring rules transferred securities between HTM and AFS multiple times in response to changing regulatory incentives.[26] And banks that benefited from the reinstated capital filter *increased* the risk of their AFS securities.[27]

These findings suggest that the current framework allows banks to manage their reported capital ratios through accounting classifications that bear little relationship to actual risk or holding intent. Recognizing AOCI is a necessary first step, but it does not fully address the broader incentive for banks to hide risk in the HTM book where unrealized losses remain shielded from capital consequences. The agencies should consider whether HTM classification as currently constructed is consistent with the prudential objectives of the capital framework, and whether modifications to its scope, transfer rules, or capital treatment are warranted.

D. Reserve Management and Liquidity Regulation

As Darrell Duffie has noted, the demand for reserve balances by the largest banks is driven in part by capital requirements and liquidity regulations.[28] Banks may expand certain balance sheet exposures in response to capital reductions. If, at the same time, the Fed shrinks its balance sheet or the agencies relax liquidity requirements, the result could be a dangerous convergence of reduced capital buffers and reduced liquidity resilience.[29] September 2019 illustrates the danger. When reserve supply fell below banks' structural demand, the Secured Overnight Financing Rate spiked by 300 basis points above the FOMC's effective federal funds target range, forcing the Fed to intervene in short-term funding markets. Weakening the capital framework in isolation — without coordinated attention to liquidity requirements and reserve management — risks amplifying precisely these kinds of strains.[30]

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[25] Sehwa Kim, Seil Kim & Stephen G. Ryan, *Expanding Mark-to-Market Accounting for Banks' Debt Investment Securities and Regulatory Capital*, in SVB AND BEYOND: THE BANKING STRESS OF 2023, *supra* note 23, at 137; *see also* Sehwa Kim, Seil Kim & Stephen G. Ryan, *Banks' Motivations for Designating Securities as Held to Maturity*, 100 ACCT. REV. 303 (2025).
[26] Kim, Kim & Ryan, *Expanding Mark-to-Market Accounting for Banks' Debt Investment Securities and Regulatory Capital*, *supra* note 25, at 147–54.
[27] *Id.* at 154–57.
[28] Darrell Duffie, *The Payment System Puts a Floor on the Fed's Balance Sheet*, BROOKINGS PAPERS ON ECON. ACTIVITY (2026), https://www.brookings.edu/wp-content/uploads/2026/03/3_Duffie_unembargoed.pdf; Adam Copeland, Darrell Duffie & Yilin (David) Yang, *Reserves Were Not So Ample After All*, 140 Q.J. ECON. 239 (2025).
[29] Stephen G. Cecchetti & Kermit L. Schoenholtz, *The Fed's Reserve Management at a Crossroads*, MONEY AND BANKING (Feb. 8, 2026), https://www.moneyandbanking.com/commentary/2026/2/8/the-feds-reserve-management-at-a-crossroads; Stephen G. Cecchetti & Kermit L. Schoenholtz, *The Fed's Reserve Management Revisited*, MONEY AND BANKING (Apr. 19, 2026), https://www.moneyandbanking.com/commentary/2026/4/19/the-feds-reserve-management-revisited.
[30] See Copeland, Duffie & Yang, *supra* note 28, for a detailed analysis of the September 2019 liquidity crunch and its relationship to reserve scarcity.

E. The Agencies Should Conduct a Broader Quantitative Assessment

Changes of this magnitude warrant a quantitative assessment that examines the economic and financial stability consequences across a broader range of plausible scenarios.[31] The agencies' preamble analysis relies on *static* balance-sheet projections extrapolated from 2023 data. It does not model the *dynamic* behavioral responses of banks, the interaction with concurrent regulatory changes (eSLR, stress tests, potential liquidity rule changes), or the potential feedback effects on systemic risk. Opponents of the 2023 Basel Endgame proposal criticized the absence of such an assessment when requirements were being raised. The same standard should apply when requirements are being lowered, even more so given that the costs of inadequate capital become apparent only in crises, when it is too late to act.

VII. Conclusion

We urge the agencies to reconsider these proposals. The United States should implement the final Basel III standards in a manner that preserves the strength of the existing capital framework. At a minimum, the agencies should:

1. **Withdraw the arbitrary recalibration of the GSIB surcharge Method 2 coefficients** and avoid reducing the weight of short-term wholesale funding in the systemic risk score.

2. **Eliminate the material downward deviations from the Basel III standards**, particularly the replacement of the market risk output floor with a cap, the relaxation of penalties for non-modellable risk factors, and the extension of preferential securitization treatment.

3. **Reject the nonbank migration rationale as a basis for weakening bank capital standards** except in cases where migration demonstrably increases systemic risk.

4. **Retain the dual-stack calculation requirement** for the largest banking organizations, consistent with the Collins Amendment.

5. **Evaluate these proposals holistically**, considering their combined impact with the eSLR final rule, stress test changes and banks' evolving liquidity needs, rather than treating each change in isolation.

Banking is built on trust, and that trust depends on the public's confidence that the largest financial institutions have the capacity to absorb losses without recourse to public support. The cumulative effect of these proposals—together with the eSLR changes, the weakening of stress tests, and the reduction in supervisory capacity—leaves the U.S. financial system materially more vulnerable to the next crisis.

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[31] *See, e.g.,* BASEL COMM. ON BANKING SUPERVISION, RESULTS OF THE COMPREHENSIVE QUANTITATIVE IMPACT STUDY (2010), https://www.bis.org/publ/bcbs186.pdf.

These proposals are just the latest in a long sequence of incremental relaxations to financial regulatory requirements. We are reminded of the admonition of former Bank of England Deputy Governor (and former Chair of the Systemic Risk Council) Paul Tucker: "The history of bank regulation in the United States is of progressive dilutions of core regulatory requirements over a number of years, leaving the banking system as a whole vulnerable to crisis."[32] Accordingly, we urge the agencies to prioritize resilience over short-term regulatory relief and abandon these misguided proposals.

Sincerely,

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[32] Paul Tucker, *Letter to Senate Banking Committee Leaders* (Feb. 21, 2018), https://www.brown.senate.gov/download/tucker-letter-s2155.