INDEPENDENT COMMUNITY BANKERS OF AMERICA, LANCE NOGGLE

Proposal and Comment Information

Title: GSIB-Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), R-1889

Comment ID: FR-2026-0009-01-C41

Submitter Information

Organization Name: Independent Community Bankers of America

Organization Type: Organization

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See attached comment letter from ICBA.

June 18, 2026

Via Electronic Submission

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

RE: Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15) 12 CFR Part 217 [Docket No. 1889] RIN 7100-AH22

Dear Madam or Sir:

I. Introduction

The Independent Community Bankers of America ("ICBA")[1] respectfully submits these comments in response to the Board of Governors of the Federal Reserve System's ("Board") notice of proposed rulemaking revising the risk-based capital surcharge applicable to global systemically important bank holding companies ("GSIBs"). ICBA supports strong, risk-sensitive capital requirements for the largest banking organizations, and it supports the transparency and anti-window-dressing reforms contained in the proposal. ICBA strongly opposes, however, the proposal's reductions in GSIB capital in any form, which the Board has advanced without demonstrating any reduction in the systemic risk the largest banks pose to the American public and financial system.

Community banks have a direct and substantial stake in changes to GSIB capital requirements, especially when they place more burden on community banks. The GSIB surcharge protects the broader banking system, including community banks, by reducing both the probability and the severity of GSIB failure. When the largest banks fail or approach failure, the consequences fall disproportionately on smaller banks: deposit insurance assessments rise, funding markets seize, customer confidence erodes, and economic hardship spreads through the local economies that community banks serve. GSIBs benefit from an implicit expectation of government support in distress with customers often moving to these banks because they know the government will bail them out. Community banks bear the consequences of GSIB risk-taking without receiving comparable benefits, which is why the surcharge is essential to ensure that the largest firms absorb more of the costs associated with the risks they create.

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[1]The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at icba.org.

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II. Summary of the Proposal

The proposal would make four principal changes to the surcharge framework. First, it would revise the fixed coefficients used in the Method 2 calculation and introduce an automatic mechanism that adjusts those coefficients annually for economic growth and inflation. Second, it would remove risk-weighted assets from the denominator of the short-term wholesale funding ("STWF") indicator and recalibrate the indicator's weighting. Third, it would shift the calculation of systemic indicators from year-end point-in-time values to daily or monthly averages in order to reduce window-dressing incentives. Fourth, it would narrow surcharge increments from 50 basis points to 10 basis points.

By the Board's own estimate, the net effect of these changes is a reduction of approximately 3.8 percent in aggregate common equity tier 1 ("CET1") capital requirements for Category I and II firms, attributable primarily to the reduction of the systemic indicator coefficients and the revision of the STWF calculation.[2] The surcharge proposal is the largest downward capital driver among the three capital proposals the Board issued on March 19, 2026. When combined with proposed changes to the stress testing framework, the cumulative reduction in CET1 requirements for the largest firms reaches 4.8 percent.[3]

III. ICBA's Core Concerns

A. The Proposal Reduces GSIB Capital Requirements Without Demonstrating a Corresponding Reduction in Systemic Risk

The proposal would materially reduce capital requirements applicable to the nation's largest and most systemically important banking organizations. Yet the proposal does not demonstrate that the systemic risks posed by these institutions have declined since the surcharge framework was established.

To the contrary, consolidation within the banking industry has continued. The number of banks has fallen substantially since the financial crisis, while assets have become increasingly concentrated among a relatively small number of very large banks. Several banking organizations now hold more than $1 trillion in assets, and the largest firms remain deeply interconnected with the broader financial system. Although headline capital ratios have improved across the system since the financial crisis, risk-weighted assets as a share of total assets have declined over the same period, which means that headline ratios overstate the improvement in resilience. The trend runs the wrong way.

The GSIB surcharge was adopted because distress at these firms imposes costs that extend well beyond their shareholders and creditors. When large institutions experience significant stress, the effects are felt throughout the banking system, including by community banks that had no role in creating the underlying risk. Community banks can face higher deposit insurance assessments,

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[2] Board of Governors of the Federal Reserve System, Memorandum to the Board: Basel III Proposal, GSIB Surcharge Proposal, and Standardized Approach Proposal (Mar. 19, 2026) (estimating that the GSIB surcharge proposal would decrease CET1 capital requirements of GSIBs by approximately 3.8 percent, mostly due to the reduction of the systemic indicator coefficients and revisions to the calculation of the short-term wholesale funding score under Method 2).
[3] Statement on Bank Capital Proposals by Governor Michael S. Barr (Mar. 19, 2026).

disruptions in funding markets, reduced customer confidence, and broader economic challenges in the communities they serve.

Given these realities, ICBA believes any reduction in GSIB capital requirements should be supported by a clear and transparent demonstration that systemic risk has declined, which the proposal fails to demonstrate. When an agency revises a framework that rests on prior factual findings, it should explain how the revision is consistent with those findings.[4] The proposal does not explain how the proposed recalibration is consistent with the factual findings that supported the existing framework. Absent a showing that the risks associated with GSIB size, complexity, interconnectedness, or funding structures have materially diminished, the Board should retain the current surcharge calibration.

B. The Proposal Contradicts the Board's Own Post-SVB Supervisory Findings

The Board's review of the failure of Silicon Valley Bank concluded that the banking system needed stronger capital positions, more usable capital buffers, and more timely supervisory intervention.[5] Federal Reserve research examining bank behavior during the COVID-19 stress period reached a complementary conclusion: large banks were broadly unwilling to draw down their capital buffers during stress, in significant part because of feared market reaction, indicating that the buffer framework was not functioning as intended and that refinement of supervisory expectations was warranted.[6] The proposal moves in the opposite direction of both sets of findings. If capital buffers are not being used as intended, supervisory expectations should be addressed directly rather than reducing the capital requirements that establish those buffers. Reducing the surcharge would address neither the supervisory concerns identified by the Board nor the market dynamics that appear to discourage buffer use.

C. The Proposal Weakens Key Components of the GSIB Framework

Two design changes warrant particular concern. First, removing risk-weighted assets from the STWF indicator reduces the framework's sensitivity to runnable funding, which remains among the most reliable leading indicators of systemic vulnerability, as both the 2008 crisis and the March 2023 failures demonstrated. The Board describes the change as a return to the indicator's originally intended design, but regardless of the original intent, the change would reduce the capital impact associated with reliance on short-term wholesale funding at precisely the firms for which that reliance is most dangerous. Second, the automatic annual coefficient adjustments risk procyclical reductions in required capital during economic expansions, when systemic risk typically builds, and the proposal offers no mechanism to guard against that dynamic. The Method 2 coefficient reductions themselves are supported by no evidence of reduced systemic risk.

D. The Proposal's Economic Rationale Is Not Supported by the Research

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[4] *FCC v. Fox Television Stations, Inc.*, 556 U.S. 502, 515 (2009); *see also Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).
[5] Board of Governors of the Federal Reserve System, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (Apr. 28, 2023).
[6] Alice Abboud et al., Covid-19 as a Stress Test: Assessing the Bank Regulatory Framework, Finance and Economics Discussion Series 2021-024, Board of Governors of the Federal Reserve System (2021).

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The implicit premise of the proposal is that surcharge relief will expand credit availability, but research, including research by the Board's own economists, contradicts that premise. Favara, Ivanov, and Rezende found that while banks subject to higher surcharges reduce loan commitments relative to other banks, total borrowing by firms does not fall, because firms substitute to other lenders.[7] The surcharge reallocates credit across the banking system; it does not constrain aggregate credit supply, and separate research finds that supervisory intensity, rather than the surcharge, explains GSIB lending patterns. Taken together, the available research suggests that reducing the surcharge is unlikely to materially increase overall credit availability, and that the principal effect of reduction would be to shift lending share back toward the largest institutions and away from the community banks and regional lenders.

E. The Proposal Does Not Evaluate Competitive Effects on Community Banks and Other Non-GSIB Institutions

The proposal also does not meaningfully evaluate how lower GSIB capital requirements may affect competition within the banking sector. Community banks compete directly with GSIBs across a range of commercial and retail lending, deposit gathering, and payments services. As the Board has long recognized, the largest banking organizations benefit from significant economies of scale, broad market access, and, in some cases, funding advantages associated with perceptions of government support during periods of stress.

To the extent the proposal expands the relative capacity of GSIBs to support balance sheet growth while leaving smaller institutions subject to unchanged requirements, it may alter competitive conditions throughout the banking system in ways the proposal does not consider or evaluate. The proposal does not analyze these potential effects in any meaningful way, nor does it assess whether the proposed reduction in GSIB capital requirements is justified when viewed alongside the competitive consequences for community banks and other non-GSIB institutions. Because competition and market structure are important considerations in evaluating the overall costs and benefits of regulatory policy, the Board should address these issues before finalizing any reduction in GSIB capital requirements.

F. The Proposal Increases Systemic Vulnerability at a Time of Elevated Risk

Interest-rate risk, liquidity pressures, and concentration risk in the banking system remain elevated. Relative to the period preceding the financial crisis, GSIBs today are larger and remain highly interconnected within the financial system. A downward shift in capital at the largest firms increases the probability and severity of stress events whose costs would be borne throughout the system. The Board should not adopt a proposal that adds systemic risk at the same time it is reducing other safeguards, a concern ICBA addresses further in the conclusion of this letter.

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[7] Giovanni Favara, Ivan Ivanov & Marcelo Rezende, GSIB Surcharges and Bank Lending: Evidence from U.S. Corporate Loan Data, Journal of Financial Economics (2021).

IV. ICBA's Support for Certain Elements of the Proposal

ICBA's opposition to the capital reductions does not extend to the proposal's measurement and transparency reforms, which improve the framework without lowering required capital.

First, ICBA supports the shift to daily and monthly averaging of systemic indicators. Point-in-time, year-end measurement invites window-dressing, in which firms temporarily compress reported indicators around measurement dates. Averaging enhances transparency, reduces gaming, and aligns the United States framework with international practice.

Second, ICBA supports narrowing surcharge increments from 50 basis points to 10 basis points. Narrower increments improve risk sensitivity and reduce the cliff effects that distort firm behavior near band thresholds.

Third, ICBA supports the accompanying revisions to the FR Y-15 systemic risk report to the extent they promote consistent measurement across indicators and enhance the disclosure on which market discipline depends.

V. ICBA's Recommendations

ICBA respectfully recommends that the Board take the following actions:

1. Retain the current GSIB surcharge calibration unless and until it demonstrates, through a published quantitative analysis, that GSIB systemic footprints have materially diminished. An agency engaged in reasoned decision making may not ignore an important aspect of the problem before it.[8] The proposal contains no analysis of whether systemic-risk outcomes would be affected by the reduction in capital requirements and no meaningful assessment of the proposal's effects on competition within the banking sector. Both issues should be addressed before any reduction is finalized.

2. Maintain risk-weighted assets in the STWF indicator, or, at minimum, provide a substantially more robust justification for their removal than the proposal currently offers.

3. Reconsider the automatic coefficient adjustment mechanism to address its procyclical tendency to reduce required capital during economic expansions.

4. Conduct a post-SVB systemic-risk calibration study before finalizing any capital reductions, so that the surcharge framework reflects the lessons of the most recent episode of large-bank distress.

5. Continue to maintain strong capital requirements for GSIBs as a matter of policy. GSIB distress disproportionately harms smaller institutions, and strong capital at the largest firms supports the stability of the entire financial system, including the community banks that depend on stable funding markets and a credible deposit insurance fund.

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[8] *State Farm*, 463 U.S. at 43.

VI. Conclusion

ICBA's concerns with this proposal are amplified by the broader regulatory context in which it is being considered. The proposed reduction in the GSIB surcharge does not occur in isolation. Rather, it follows changes to the enhanced supplementary leverage ratio, accompanies proposed revisions to the stress testing framework, and comes at a time when supervisory expectations and resources applicable to the largest institutions are also changing. While each of these actions may be presented as a targeted adjustment designed to address a specific concern, their cumulative effect warrants careful consideration because together they represent a meaningful recalibration of several key elements of the post-crisis framework applicable to the nation's largest banking organizations.

ICBA does not oppose regulatory modernization, nor does it suggest that every aspect of the post-crisis framework should remain permanently unchanged. Regulatory requirements should evolve as markets, institutions, and risks evolve. At the same time, changes that reduce resiliency requirements for the largest banking organizations should be supported by a clear demonstration that the underlying risks have declined or that the existing requirements are no longer necessary to achieve their intended objectives. The proposal does not make that showing. As a result, ICBA is concerned that the combined effect of the Board's recent and proposed actions could increase systemic risk while reducing safeguards that have contributed significantly to the stability of the banking system over the past decade.

Those risks would not be borne solely by the banking organizations subject to the surcharge. Community banks have a significant stake in maintaining strong prudential standards for the largest banking organizations because they often bear substantial costs when large institutions experience financial distress, despite receiving none of the advantages associated with systemic importance. Unlike GSIBs, community banks do not benefit from market perceptions that extraordinary governmental support may be available during periods of severe stress. Yet they may face higher Deposit Insurance Fund assessments, disruptions in funding and liquidity markets, shifts in depositor behavior, and broader economic consequences that can affect the communities they serve. One of the central purposes of the GSIB surcharge is to ensure that institutions whose size, complexity, and interconnectedness create systemic risks maintain capital commensurate with those risks. The Board should be cautious about reducing that safeguard absent compelling evidence that the risks it was designed to address have materially diminished.

For these reasons, ICBA urges the Board to finalize the proposal's transparency and anti-window-dressing reforms, including indicator averaging, narrower surcharge increments, and the related FR Y-15 reporting revisions, while retaining the current GSIB surcharge calibration. ICBA appreciates the opportunity to comment on the proposal and would welcome the opportunity to discuss these issues further with the Board and its staff.

Respectfully submitted,

/s/

Lance Noggle
Senior Vice President, Operations Regulatory Counsel