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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

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Submitter Information

Organization Name: Morgan Stanley

Organization Type: Company

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Please see the attached comment letter submitted on behalf of Sharon Yeshaya and Charles Smith of Morgan Stanley

Morgan Stanley

June 18, 2026

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Re: Capital Proposals for Large U.S. Banking Organizations

Ladies and Gentlemen:

We appreciate the opportunity to comment on the notice of proposed rulemaking published by the Board of Governors of the Federal Reserve System (the “**Board**”), the Office of the Comptroller of the Currency (“**OCC**”), and the Federal Deposit Insurance Corporation (“**FDIC**”) (collectively, the “**Agencies**”) to implement the revised Basel III Accord for Category I and II banking organizations (the “**Basel III Proposal**”)¹ and, separately, the notice of proposed rulemaking published by the Board to revise the GSIB Surcharge framework (the “**GSIB Surcharge Proposal**”).²

We support the core design and objectives of these proposals and encourage the Agencies to adopt final standards in 2026. Revised regulatory capital standards should generally take effect on January 1, 2028, with early adoption permitted and transitional arrangements available to facilitate an orderly implementation of the Market Risk and Credit Valuation Adjustment (“**CVA**”) modeled approaches for all relevant trading desks. GSIB Surcharges should be capped at current levels pending implementation of revised standards, with newly calculated surcharges taking effect by January 1, 2028, if lower than current levels. While we have technical comments in some areas, the prompt adoption of final standards would bring to resolution more than fifteen years of efforts to implement revised capital standards in the United States following the 2008 financial crisis.³ These proposals—considered together with the Board’s reforms to supervisory stress testing, which “complement[s] the risk-based framework

¹ 91 Fed. Reg. 14,952 (Mar. 27, 2026). Docket ID OCC–2026–0265 (OCC); Docket No. R–1887 and RIN 7100–AH20 (Board); RIN 3064–AF29 (FDIC).

² 91 Fed. Reg. 14,908 (Mar. 27, 2026). Docket No. 1889 and RIN 7100-AH22.

³ See Basel Committee on Banking Supervision, “Basel III: A global regulatory framework for more resilient banks and banking systems” (Dec. 16, 2010) ([link](#)).

by adding granularity and risk sensitivity”⁴—provide a set of coherent, empirically grounded standards that ensure conservative capital management, support banking organizations’ ability to provide credit to U.S. companies and households, and incorporate appropriate adjustments reflecting the centrality and depth of capital markets in the U.S. economy.

By any measure, large U.S. banking organizations today have substantial capital positions. The Board’s Financial Stability Report confirms that U.S. Global Systemically Important Banks’ (“U.S. GSIBs”) capital positions “remained near previous peaks” as of late 2025, which are more than double 2008-period levels.⁵ Morgan Stanley’s capital position grew by an even larger scale in that period.⁶ Strong capital requirements are the foundation of banking system stability but must also be calibrated relative to risk and the broader economic transmission effects of banks’ balance sheets. Lending to the economy is impaired when banks hold outsized positions in central bank reserves.⁷ Capital standards can impair market-making in corporate bonds and impose higher costs on U.S. corporates’ interest rate and foreign exchange hedges, constraining U.S. economic growth and U.S. companies’ global competitiveness. Numerous studies have highlighted how post-crisis capital reforms drove mortgage lending out of regulated banks, impacting U.S. citizens’ path to homeownership.⁸ These and numerous other examples underscore that capital requirements must be strong but also well designed to enable banking organizations to meet the credit needs of all sectors of the U.S. economy.

Our comments in this letter include specific technical recommendations where the Basel III Proposal and GSIB Surcharge Proposal could be refined to capture risk exposure more accurately, improve operational processes, and strengthen the coherence of the regulatory capital framework across risk-weighted assets (“RWAs”), capital buffers and stress-testing practices.⁹ In all cases our comments can be resolved through modest technical changes to the proposals without materially changing their core

⁴ Vice Chair for Supervision Michelle W. Bowman, “Capital Rules for the Real Economy” (Mar. 12, 2026) ([link](#)), p. 5; see also 90 Fed. Reg. 51,856 (Nov. 18, 2025).

⁵ Board, Financial Stability Report (Nov. 2025) ([link](#)), p. 28, Figure 3.1; see also Board, Financial Stability Report (May 2026) ([link](#)), p. 2 (“Banks continued to report regulatory capital levels near historically high levels.”).

⁶ While regulatory capital standards evolved between 2008 and 2026, Morgan Stanley remained subject to Tier 1 capital requirements during this period. The Firm reported \$37.9 billion of Tier 1 capital as of November 30, 2008, and \$94.2 billion of Tier 1 capital as of March 31, 2026. Morgan Stanley, Form 10-K for the fiscal year ended Nov. 30, 2008 ([link](#)), p. 78; Morgan Stanley, Form 10-Q for the quarterly period ended Mar. 31, 2026 ([link](#)), p. 25.

⁷ See, e.g., William F. Diamond, Zhengyang Jiang, and Yiming Ma, “The Reserve Supply Channel of Unconventional Monetary Policy,” *Journal of Financial Economics*, vol. 159 (2024) ([link](#)) (finding that “each dollar of reserves reduces bank lending by 7.7 cents” and “a large injection of central bank reserves has the unintended consequence of crowding out bank loans because of bank balance sheet costs”).

⁸ See, e.g., Fitch Ratings, “Lower US Bank Mortgage Capital Rules Would Pressure Non-Bank Lenders” (Feb. 20, 2026) ([link](#)) (“Non-bank lenders have benefited from bank retrenchment from mortgage lending since the Global Financial Crisis. In 2025, seven of the top 10 originators, including the four largest, and five of the 10 largest servicers by principal balance of owned mortgage servicing rights (MSR) at YE25 were non-banks. This follows a clear shift since 2008, when banks originated 60% of mortgages and held 95% of MSRs, according to the Federal Reserve.”).

⁹ We recommend for consideration comment letters submitted on the GSIB Surcharge Proposal by the Financial Services Forum (“FSF”) and Bank Policy Institute (“BPI”) ([link](#)), the International Swaps and Derivatives Association (“ISDA”), the Securities Industry and Financial Markets Association (“SIFMA”) and the Institute of International Finance (“IIF”) ([link](#)), and the Futures Industry Association ([link](#)) and, on the Basel III Proposal, by BPI, FSF, the American Bankers Association, the U.S. Chamber of Commerce and the Consumer Bankers Association ([link](#)) and ISDA and SIFMA ([link](#)).

design or quantitative ranges, consistent with the objective of prompt adoption and implementation. Our comments are summarized below, with supporting analysis included in the related Appendices.

GSIB Surcharge Proposal

Support for the one-time coefficient adjustment and annual coefficient indexing: We support the Board's efforts to update the GSIB Surcharge methodology after more than a decade of operation and to introduce mechanisms to ensure annual indexing of indicator coefficients going forward. As explained in the proposal, method 2 scores have grown at an outsized rate since 2019 in response to inflation, real economic growth and other macroeconomic changes rather than increases in U.S. GSIBs' systemic risk profiles. The proposed standards would "help ensure that method 2 scores better reflect systemic risk" and, by incorporating an annual coefficient indexing mechanism, provide a durable solution.¹⁰

Support for the revised STWF indicator: We also support the proposed redesign of the Short-Term Wholesale Funding ("STWF") indicator, which, as proposed, would simplify the method 2 calculation, more directly capture firms' reliance on STWF and restore this indicator to an approximate 20 percent weighting, consistent with the Board's original intent.¹¹ The legacy methodology illogically utilized the ratio of STWF to RWAs—a ratio which is not itself a signal of systemic risk—and incorporated unnecessarily complex calculation mechanics. As revised, the proposed coefficient-based approach for the STWF indicator would mirror the application of coefficients to all other systemic indicators in the GSIB Surcharge framework and permit orderly indexing in the future for economic growth. The revised methodology also better supports banking organizations' intermediation of U.S. Treasury securities ("USTs") markets in which shorter-dated financing activities generate STWF.

Prompt adoption: The Board should prioritize prompt adoption of the revised GSIB Surcharge framework and adopt transition mechanisms to avoid further increases in method 2 surcharges driven by the legacy methodology in which the Board has identified clear flaws. The Board should implement a two-part approach to ensure an orderly implementation of the revised framework.

- The Board should cap GSIB Surcharges as of the date a final rule is adopted (e.g., at January 1, 2026, levels, assuming adoption of a final rule by December 31, 2026) until surcharges calculated under the revised methodology are in effect.
- The revised methodology, using year-end data from 2026, should be applied to calculate surcharges taking effect on January 1, 2028 (if a reduction) or January 1, 2029 (if an increase), consistent with current rule standards in which a surcharge increase takes effect on a delayed basis and a surcharge decrease takes effect on an accelerated basis.¹²

¹⁰ 91 Fed. Reg. at 14,911.

¹¹ 80 Fed. Reg. 49,082, 49,101 (Aug. 14, 2015) (explaining that the Board adopted calibration mechanics in its original final rule "to make the short-term wholesale funding measure equal to 20 percent of the firm's method 2 score.").

¹² 12 C.F.R. § 217.403(d). As explained in [Appendix 1](#), the Board should also clarify how reporting forms will incorporate legacy STWF reported data to accommodate proposed changes in defined terms.

We emphasize that prompt action is required to correct unwarranted inflation in method 2 surcharges. The Board’s then-Vice Chair for Supervision publicly identified method 2 score inflation as a problem in 2024¹³—under the legacy methodology, the data from that year will inform surcharges taking effect on January 1, 2027—underscoring the need for prompt action.

Appendix 1 provides further analysis and evidence supporting our GSIB Surcharge recommendations.

Credit Risk

We are broadly supportive of proposed Credit Risk standards, with some technical recommendations as summarized in the table below.

The Agencies have proposed to eliminate the internal models methodology (“**IMM**”) as an approach for calculating Credit Risk RWAs. IMM remains a Basel Accord-permitted Credit Risk methodology that is included in the regulatory capital standards of Japan, the European Union and the United Kingdom.¹⁴ In the current U.S. regulatory capital framework, IMM has demonstrated utility as a methodology that supports accurate, risk-sensitive Credit Risk RWAs. By incorporating calculation elements that provide a forward-looking view of tail exposure relevant for limit setting, margining, and risk appetite calibration, IMM also supports important exposure- and risk-management practices beyond RWA calculations.

If IMM is eliminated as an available Credit Risk RWA methodology, we believe that final standards should permit its ongoing use for other exposure- and risk-management purposes, in particular Single Counterparty Credit Limits (“**SCCL**”) and legal lending limits, both because of the demonstrated utility and reliability of IMM in these contexts as well as the absence of analysis in the proposal examining the effect of eliminating IMM as an available methodology for these purposes. We also believe that, even if IMM is generally eliminated as a Credit Risk RWA methodology, it could be retained to calculate RWAs for specific portfolios, such as cross-product netting exposures involving UST markets-related transactions. Adoption of a suitable cross-product netting capital methodology, whether achieved through revisions to the Standardized Approach for Counterparty Credit Risk (“**SA-CCR**”) or retention of IMM, is necessary to support broader policy objectives related to the UST clearing mandate and overall UST market depth and liquidity.

As proposed, the Expanded Risk-Based Approach (“**ERBA**”) Credit Risk methodology will likely result in more comparable RWA calculations across banks. Through its use of investment grade

¹³ Then-Vice Chair for Supervision Michael S. Barr, “The Next Steps on Capital” (Sep. 10, 2024) ([link](#)), p. 11 (“The U.S. G-SIB surcharge was set nearly nine years ago, and the growth in the economy since 2015 has meant that G-SIBs’ measures of systemic risk have increased, even for firms whose share of domestic or global economic activity has not increased. The Board noted the potential for this effect in the original 2015 G-SIB rule. . . . I intend to recommend that we improve the calculation of the capital surcharges for G-SIBs by reflecting changes in the global banking system since the Board adopted the G-SIB surcharge in 2015.”).

¹⁴ Financial Services Agency, Notice No. 19 of 2006, Article 79 through Article 79-3-6 ([link](#)) (Japan); Capital Requirements Regulation No 575/2013, as amended, Article 283 ([link](#)) (EU); Counterparty Credit Risk (CRR) rulebook, Article 283, as amended by PS3/26 (effective Jan. 1, 2027) ([link](#)) (UK).

(“IG”) and loan-to-value (“LTV”) mortgage standards as a basis for assigning risk weights, ERBA also incorporates an improved degree of risk sensitivity over legacy Standardized Approach Credit Risk calculations. Adoption of a single Credit Risk RWA methodology applicable to Category I and II banking organizations also simplifies the regulatory capital framework, an improvement from the current “two stack” design.

In addition to retaining IMM as an available methodology for use in SCCL and legal lending limits and incorporating a well-calibrated cross-product netting methodology, we have a select number of specific recommendations, summarized in the table below and explained in greater detail in [Appendix 2](#), which could be incorporated into final standards adopted by year-end 2026 without necessitating significant changes to the proposal.

We support the proposed approaches to investment grade and non-significant equity investments standards	• The investment grade standard is well-calibrated and supported by risk management evidence • Retaining the current non-significant equity investments treatment avoids unnecessary complexity and results in suitable RWA outcomes
The definitions of “commitment,” “traditional securitization” and “synthetic securitization” should remain unchanged in regulatory capital standards as the proposed changes are not adequately explained or justified	• The rationale for proposed definitional changes is unclear • The proposed rulemaking does not provide an adequate basis for submitting comments • The Basel III Proposal can be finalized expeditiously without adoption of these revised definitions
An “eligible guarantee” determination should not require an “eligible guarantor”	• An eligible guarantor condition does not serve a clear purpose in a substitution approach methodology • If an eligible guarantor is required, eligible guarantor status should be based on investment grade status alone, not whether the guarantor has debt securities outstanding or other criteria • The requirement that the guarantor’s creditworthiness is not positively correlated with the credit risk of the exposures disqualifies most parent guarantees, which are a fundamental credit risk management tool
Securities held on a bankruptcy remote basis as collateral by third-party custodians in securities lending arrangements should not be included as “exposures” in the collateral haircut approach	• A banking organization has no risk of loss in the event of counterparty default in a securities borrowing transaction if securities

	pledged as collateral are held in a bankruptcy remote manner
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Operational Risk

We are also broadly supportive of proposed Operational Risk standards, with some technical recommendations.

Wealth and asset management business lines: In particular, we support the Agencies’ decision in the proposal to redesign Operational Risk standards applicable to fee- and commission-based businesses, including wealth management and asset management business lines, to reflect more accurately these businesses’ comparatively lower operational risk profiles. This evidence-based approach is better suited for application to U.S. banking organizations, which have much larger fee- and commission-based businesses than non-U.S. banks that contributed the bulk of reported data considered by the Basel Committee when it adopted global standards.¹⁵

Noninterest component netting: We also support the proposed netting of income and expenses in the calculation of the noninterest component. “One-stop netting” within the noninterest component also achieves greater consistency across banking organizations, taking into account variable business models and a range of permitted accounting practices, and resolves some of the conceptual and operational frictions that otherwise arise from applying different measurement and calculation principles across three distinct Operational Risk components, as contemplated by Basel Accord standards. We recommend that the final rule clarify and confirm certain netting mechanics within the noninterest component to avoid confusion and inconsistent application across firms.

Appendix 3 provides further analysis and evidence supporting our Operational Risk recommendations.

Market Risk / CVA

We also broadly support the proposed Market Risk and Credit Valuation Adjustment (“CVA”) standards in the Basel III Proposal. The proposed standards reflect an evidence-based approach to facilitate banking organizations’ significant role in U.S. capital markets, with higher capital charges applying to activities with lower observed liquidity or higher volatility. We also support significant steps taken in the proposal to encourage firms to seek internal model approvals for trading desks, with models-based calculations generally resulting in more accurate risk capture than standardized methodologies.

Accurate calibration of trading book capital standards is critical to support U.S. economic growth and strength. The United States has the leading capital markets in the world with other major jurisdictions considering recommendations and reforms to achieve similarly dynamic financing and

¹⁵ Basel Committee on Banking Supervision, “Basel III Monitoring Report: Results of the cumulative quantitative impact study” (Dec. 2017) ([link](#)), pp. 1, 26-27 (summarizing Basel Accord Operational Risk RWA pro forma impacts as calculated on an aggregate basis for global banks, the data set for which included 113 firms from various regions).

investment environments.¹⁶ Major reforms enacted after the financial crisis bolstered the resilience of large U.S. banking organizations, ensuring capital, funding and liquidity strength to meet future adversity, particularly in trading businesses. Market-wide reforms enacted under Title VII of the Dodd-Frank Act—including swap dealer registration, clearing mandates, uncleared margin requirements, and expanded trade reporting standards—created the legal and regulatory mechanisms necessary to ensure safe oversight of trading markets. Against this backdrop, post-financial crisis evidence confirms that businesses with access to capital markets have better access to affordable credit than a purely bank loan-centric financing model.¹⁷

The Market Risk and CVA standards in the Basel III Proposal would directly impact U.S. banking organizations' capital markets franchises, including their ability to make markets in corporate bonds, provide investors with access to traded products, and ensure U.S. corporates can hedge their interest rate and foreign exchange risks. The design and calibration of these standards is critical; application of erroneous or poorly designed standards will have ripple effects in the U.S. economy as banking organizations adjust capital management practices in trading businesses in response.

An accurate and stable models-based measure is necessary for Market Risk RWAs in light of shortcomings in the standardized measure. The Basel III Proposal permits banking organizations to choose, for most trading desks, between a models-based measure and a standardized measure when calculating Market Risk RWAs. For firms with diversified trading portfolios, the standardized measure results in outsized capital requirements arising from, among other factors, the absence of any inter-asset class diversification recognition. By contrast, the models-based measure would “conservatively recognize empirical correlations across risk classes.”¹⁸ As a practical matter, the absence of an inter-asset class correlation factor in the standardized measure creates a strong incentive for banking organizations with diversified trading businesses to seek to operate under the models-based measure. The impracticality of operating only under the standardized measure for these firms underscores the importance of achieving accurate and stable models-based measure calculations, including on the initial implementation date.

Firms should have a clear path to adopt Market Risk and CVA modeled approaches for all relevant trading desks on the initial implementation date. A major implementation challenge for Market Risk and CVA standards is the initial implementation period. If these standards are applied in full force on January 1, 2028, with no transition arrangements, many firms intending to use the Market Risk models-based measure or CVA models will likely operate on a temporary basis with some desks subject

¹⁶ See, e.g., Mario Draghi, “The Future of European Competitiveness” (Sep. 9, 2024), Part A ([link](#)) (finding that EU capital markets “remain fragmented and flows of savings into capital markets are lower” than in the United States, with financial securities directly held by households accounting for only 17 percent of EU household wealth compared to 43 percent in the United States.); Oliver Wyman, “The Capital Flywheel: European Capital Markets Report” (Jun. 2024) ([link](#)), p. 3 (“European capital markets are losing their competitiveness, particularly when compared to the United States. . . . Europe has smaller overall capital pools than the US, with pension, insurance, and household assets amounting to six times GDP in the US, compared to only two to three times GDP in leading European economies like France, Germany, and Spain.”).

¹⁷ See, e.g., Jang Ping Thia and Xinyu Kong, “Firms Bond Market Access and Impact on Bank Borrowing Costs,” *Journal of International Financial Services Research* 68 (2025): 51-74 ([link](#)) (estimating that companies face borrowing costs between 114 to 185 bps higher if supported only by bank loans as opposed to bonds).

¹⁸ 91 Fed. Reg. at 15,059.

to capital requirements calculated under standardized approaches. Such partial implementation would be clearly frictional for risk management and capital management—a firm’s capital planning would need to consider large, upfront increases in RWAs that would gradually decline as model approvals are received, disrupting its ability to make markets consistently over the implementation period—and would create competitive imbalances across firms if some institutions, but not all, had received approvals for trading desks to operate under modeled approaches.

The Basel III Proposal includes some accommodations to facilitate an orderly implementation of the Market Risk models-based measure, including delayed application of the profit and loss attribution test (“**PLAT**”) by three years and rule mechanics that facilitate supervisory approvals of the modeled approach through any of four distinct options. We welcome these accommodations, which reflect thoughtful and deliberate efforts to provide ex ante clarity to firms, supervisors and external stakeholders on model implementation.

We recommend that the Agencies build on this foundation by providing further clarity in the final rule on Market Risk and CVA model approvals. We recommend consideration of two specific approaches:

- First, Market Risk and CVA standards could be applied on a delayed basis notwithstanding implementation of revised Credit Risk and Operational Risk standards on January 1, 2028. Delaying the implementation date of revised Market Risk and CVA standards until July 1, 2029, for example, would permit near-term implementation of revised Credit Risk and Operational Risk standards without the need for transitional arrangements for Market Risk and CVA implementation. Instead, Market Risk and CVA standards could apply with full force on July 1, 2029, with firms operating under legacy Market Risk standards in 2028 and early 2029.¹⁹ This approach would broadly align with the EU’s implementation of the revised Basel Accord, which applied revised Basel Accord Credit Risk and Operational Risk standards as of January 1, 2025, with revised Market Risk standards scheduled to take effect two years later on January 1, 2027.²⁰
- Second, Market Risk and CVA standards could be applied on the same implementation date as revised Credit Risk and Operational Risk standards but with accommodations for banks to receive interim period model approvals pending completion of full model reviews by supervisors. For example, under this approach, the final rule would confirm that supervisory approvals for models can be based, at least for an interim eighteen-month period, on submission of complete model documentation supported by completed internal governance processes, including second-line review. The rule would also confirm that interim period model approvals do not require a full suite of backtesting data for each trading desk, only a reasonable expectation (supported by documented internal governance) that trading desks

¹⁹ Under this approach, the three-year delay in PLAT effectiveness could begin on January 1, 2028, so that the transition to revised Market Risk standards is completed by January 1, 2031.

²⁰ Regulation (EU) 2024/1623 (CRR III) amending Regulation (EU) No 575/2013, as amended by Delegated Regulation (EU) 2024/2795 and Delegated Regulation (EU) 2025/1496.

will generate adequate backtesting data to validate models before expiry of the interim period.

Regardless of which approach the Agencies ultimately select, we emphasize the importance of rule text clarity governing implementation standards. Final rules should identify the specific technical requirements governing model approvals to support efficient implementation programs. Regulatory text governing model approvals should be revised and expanded to provide greater planning certainty, particularly if Market Risk and CVA standards are applied on the same implementation date as revised Credit Risk and Operational Risk standards but with an interim period model approvals process.²¹

Final rules should confirm that regulated subsidiaries can perform Market Risk calculations efficiently within larger banking organizations. The Basel III Proposal acknowledges an interplay between Market Risk trading desk structures and Volcker Rule trading desk structures, the second of which “may span more than one legal entity.”²² The final rule should include clear standards permitting regulated subsidiaries to define their trading desks, and receive entity-specific model approvals, while also permitting such subsidiaries to integrate model applications efficiently with parent company model applications, even if the latter apply across multiple legal entities.

We believe the transition and implementation issues are the key points to be resolved in the Market Risk framework in a final rule. Appendix 4 also identifies various specific, impactful technical items that would improve risk management performance in the Market Risk and CVA frameworks and can be resolved efficiently in a final rule adopted by December 31, 2026.

Transitions

Neither the Basel III Proposal nor the GSIB Surcharge Proposal includes a target implementation date. As explained earlier in this letter, we recommend that revised standards generally take effect on January 1, 2028, with early adoption permitted for RWAs, transitional arrangements available to facilitate an orderly implementation of Market Risk and CVA models for all relevant trading desks, and a capping mechanism to prevent further inflation in GSIB Surcharges.

The transition from legacy standards to revised standards can create temporary volatility in capital requirements. Adoption of clear transition mechanics, taking into account quarter-by-quarter planning, is especially important for the Board, given the interplay of RWA changes with the GSIB Surcharge and the Stress Capital Buffer (“SCB”), the second of which incorporates Comprehensive Capital Analysis and Review (“CCAR”)-projected capital ratio declines utilizing prior year RWAs.

²¹ For example, the proposal includes four potential paths for banks to comply with when seeking supervisory approvals for Market Risk models. 91 Fed. Reg. at 15,240 (Proposed Rule Section 212(b)(2)(ii)). While we support this flexibility, the Agencies may need to add a fifth, time-limited path for interim period approvals and clarify how other model approval criteria in the proposal apply under each path.

²² Board, “Volcker Rule Frequently Asked Questions,” FAQ 2 (posted Jun. 10, 2014) ([link](#)).

Transition mechanics should include the following:

GSIB Surcharge transition. GSIB Surcharges should be capped as of the date a final rule is adopted (e.g., at January 1, 2026, levels, assuming adoption of a final rule by December 31, 2026) until surcharges calculated under the revised methodology are in effect.

SCB transition. CCAR utilizes December 31 RWA reported values, and the resulting SCB (applied, in the current schedule, as of October 1 of the following year) incorporates the CCAR projection period capital ratio decline. If revised RWA standards take effect on January 1, 2028, there are two issues to solve: (i) capital requirements calculated during the first three quarters of 2028 will be subject to an SCB incorporating a projected capital ratio decline from 2027 CCAR, which will utilize legacy RWAs as of December 31, 2026, as the jump-off point; and (ii) the projected capital ratio decline in 2028 CCAR, which will be applicable to the 2028 SCB applied to RWAs beginning October 1, 2028, will utilize legacy RWAs as of December 31, 2027, as the jump-off point.²³

These SCB transition issues could be solved through a combination of two solutions:

- First, the Board could permit adjustments to 2027 and 2028 SCBs to reflect changes in RWA measurement standards that would, in turn, impact CCAR projection period capital ratio declines. Firms could be permitted to perform parallel RWA calculations as of December 31, 2027, with the legacy RWAs-to-revised RWAs ratio applied to adjust SCBs to account for the RWA methodology transition. This RWA “scaler” could be applied to revise previously calculated 2027 SCBs that remain applicable as of January 1, 2028, and to 2028 SCBs when calculated based on 2028 CCAR results.
- Second, the final rule could provide firms with the option to early adopt revised RWA standards. For example, if the mandatory implementation date for ERBA RWAs is January 1, 2028, firms could be permitted to early adopt, including intra-quarter in Q4 2027. Early adoption in this manner would permit the Board to calculate 2028 CCAR projection period capital ratio declines based on revised RWA standards, thereby eliminating the timing mismatch in RWA methodologies. (Early adoption will not, by itself, provide a solution for SCBs based on 2027 CCAR results, which will utilize RWAs as of December 31, 2026. 2027 SCBs will be applicable on the potential ERBA implementation date of January 1, 2028, and would still require a solution.)

Market Risk and CVA RWAs transition: As explained earlier in this letter, the Agencies will need to adopt transition arrangements to accommodate firms seeking to utilize models to calculate Market Risk and CVA RWAs. Unlike the GSIB Surcharge and SCB issues, this transition issue applies to both consolidated holding companies and bank subsidiaries. An orderly implementation of revised capital

²³ We have illustrated the two issues assuming that the Board retains the current schedule of applying revised SCBs as of October 1 each year. If the Board changes the date on which revised SCBs apply, the same transition problems will arise but over different calendar quarters. Any implementation scenario must address the mismatch between legacy RWA calculation utilized in CCAR projection periods and resulting SCBs applied to different RWA standards.

standards should avoid volatility in Market Risk and CVA RWAs arising from partial or incomplete model approvals stemming from the limited time between adoption of the final rule and the implementation date.

CCAR Interplay

Vice Chair for Supervision Bowman has explained that “overlaps between the stress test and the risk-based framework can produce excessive requirements for some activities. In developing the Basel III proposal, we were mindful of these overlaps and evaluated the combined effect of the requirements in our impact analysis.”²⁴ We agree that these capital proposals, when considered against the Board’s evolving supervisory stress-testing practices, reflect a deliberate effort to achieve integrated and well-calibrated capital requirements. However, we believe that harmonization of these regimes will require continued focus by the Board in the years ahead, taking into account evidence from both future supervisory stress-testing exercises and the performance of revised RWA standards.

Potential frictions in the future, if any, between CCAR and risk-based capital standards are difficult to predict with precision at this stage. The Board has not yet adopted final standards to implement proposed CCAR reforms released for comment in 2025.²⁵ Under proposed standards, the Board has flexibility to adjust, subject to public comment, stress test severity in a given year to reflect its view of prevailing economic conditions and risks. As bank business models evolve over time, the performance of revised RWA standards will also need to be evaluated against stress-testing methodologies applied to the same business activities to identify frictions or overlaps. In practice, there are two primary areas where such frictions or overlaps are likely to arise.

First, Operational Risk RWA standards may impose capital requirements on business activities where operational risks are otherwise adequately capitalized against through Pre-Provision Net Revenue (“PPNR”) CCAR methodologies. In current form, CCAR applies only to legacy Standardized Approach RWAs, which do not include a distinct Operational Risk RWA component. While legacy Standardized Approach Credit Risk standards arguably include—through their blunt calculations—implicit Operational Risk charges, in the revised framework CCAR will apply for the first time directly to Operational Risk RWAs. The interaction of stress-testing and RWA methodologies in this area requires close observation, and the Board should consider adopting rule-based mechanisms to permit flexible downward adjustments to projected capital ratio declines in the supervisory severely adverse scenario or Operational Risk RWA calculations, as warranted by future empirical observation.

Second, while CCAR has historically applied to Market Risk RWAs, the interplay of the Global Market Shock (“GMS”) component with revised Market Risk RWA standards is similarly unclear. The Board’s 2025 stress-testing reform proposal partially anticipated this concern by requiring the anticipated GMS for each annual stress-testing cycle to be published for comment. But the performance of revised Market Risk RWA standards can only be evaluated over time, including, within the models-based measure, whether the default risk charge (“DRC”) and non-modelable risk factors (“NMRFs”) play an

²⁴ Vice Chair for Supervision Michelle W. Bowman, “Capital Rules for the Real Economy” (Mar. 12, 2026) ([link](#)), p. 5.

²⁵ 90 Fed. Reg. 51,856 (Nov. 18, 2025).

outsized role that replicates stress losses on less liquid positions imposed by the GMS. As with Operational Risk and PPNR, the Board should similarly consider adopting rule-based mechanisms to permit downward adjustments to projected GMS losses or Market Risk RWA calculations, as warranted by future empirical observation.

Conclusion

We emphasize our strong support for the core design and objectives of these proposals as well as our encouragement for the Agencies to adopt final standards promptly in 2026. In some areas, our comments in this letter provide additional evidence and analysis in support of technical standards in the proposals, such as for the proposed redesign of the GSIB Surcharge STWF indicator. In other cases, our comments are either focused on solving specific implementation frictions, such as Market Risk and CVA model approvals, or can be resolved through modest technical adjustments that would improve risk management utility without introducing implementation delays. We have provided technical feedback specifically in two areas—transition mechanics for the GSIB Surcharge as well as Market Risk and CVA model approval standards—precisely to support prompt adoption.

We appreciate the Agencies' constructive approach in these important proposals as well as the consideration of our comments.

Sincerely,



Sharon Yeshaya
Chief Financial Officer



Charles Smith
Chief Risk Officer

Appendix 1: GSIB Surcharge Proposal

We support the Board’s efforts to update the surcharge methodology after more than a decade of operation and to introduce mechanisms to ensure annual indexing of indicators going forward

The Board adopted the GSIB Surcharge framework in 2015, using data from the 2011-2013 period to design and calibrate each systemic indicator.¹ The Board explained that the Basel Committee “plans to review its framework, including its indicator-based measurement approach . . . every three years in order to capture developments in the banking sector and any progress in methods and approaches for measuring systemic importance.”² Notwithstanding the original intention to consider periodic recalibrations, the GSIB Surcharge Proposal acknowledges that “the method 2 score calculation uses systemic indicator coefficients that have been constant” since 2015, “regardless of how the banking system, financial markets, or the economy may concurrently change,” which in turn “could lead to the mismeasurement of systemic risk . . .” As explained by the proposal, method 2 scores have grown at an outsized rate since 2019 for reasons “attributable to the method 2 score calculation’s lack of adjustment for such changes, rather than increases in GSIBs’ systemic risk profiles.”³

The GSIB Surcharge Proposal would implement several technical changes to correct method 2 score inflation in recent years, implement annual indexing of indicator coefficients for U.S. GDP growth and reduce cliff effects through the introduction of 10 bps surcharge buckets. The proposed technical changes include a one-time downward adjustment “equal to the observed 20-percentage-point difference between the cumulative growth of aggregate method 2 and method 1 scores since the fourth quarter of 2019.”⁴ The proposed indexing mechanism would introduce an annual adjustment to method 2 coefficients tied to Bureau of Economic Analysis data, creating a credible and transparent process for incorporating the effects of U.S. economic growth going forward.⁵

We support the Board’s introduction of a one-time recalibration of indicator coefficients, annual indexing of coefficients going forward and 10 bps surcharge buckets. While there are reasonable arguments for incorporating a larger adjustment to capture economic growth since 2011-2013, the GSIB Surcharge Proposal summarizes credible post-2019 evidence of significant growth in method 2 scores from macroeconomic rather than systemic risk factors.⁶ While the proposed 1.2 factor one-time adjustment is well calibrated to capture post-2019 macroeconomic factor inflation, a larger downward adjustment would also be justified based on the Board’s prior assessments of capital position strength.⁷

¹ 80 Fed. Reg. 49,082, 49,087-88 (Aug. 14, 2015).

² 80 Fed. Reg. at 49,083.

³ 91 Fed. Reg. at 14,913.

⁴ 91 Fed. Reg. at 14,913.

⁵ 91 Fed. Reg. at 14,914, 14,916.

⁶ 91 Fed. Reg. at 14,912-13.

⁷ By 2018, the Board had already determined that “capital ratios for the larger banks are well above levels seen before the financial crisis.” Board, Financial Stability Report (Nov. 2018) ([link](#)), p. 26. The Board’s reliance on 2011-13 period data in its 2015 GSIB Surcharge final rulemaking suggests that the one-time adjustment to coefficients should be calibrated relative to the original data set.

The proposed redesign of the Short-Term Wholesale Funding indicator is logical and advances the policy objectives of the GSIB Surcharge framework

The GSIB Surcharge Proposal provides a cogent explanation for the proposed renovation of the Short-Term Wholesale Funding (“STWF”) indicator. As proposed, the STWF indicator would be restored to an approximate 20 percent weighting within aggregate method 2 scores across U.S. GSIBs, as originally intended by the Board.⁸ The revised approach would also simplify the calculation through application of a coefficient designed to mirror the calculation mechanics of other indicators.⁹ STWF is one of five indicator categories in the method 2 calculation; there is no reason why this single indicator requires a complex calculation involving an RWA denominator. The GSIB Surcharge Proposal advances all of these objectives through the introduction of a coefficient subject to annual update designed with the same mechanics as other indicators. The proposed redesign of the STWF indicator is further supported by the following considerations.

The proposal correctly identifies weaknesses in the legacy STWF methodology. The GSIB Surcharge Proposal, issued by the Board more than ten years after implementation of the original rulemaking, identifies several shortcomings with the current STWF methodology. As explained by the Board, the revised methodology would “address an effect of the current calculation, which can produce results not aligned with risk.”¹⁰ In particular, the Board emphasized that the revised methodology would “improve the measurement of a banking organization’s systemic risk profile” through incorporation of “a direct measurement of the potential transmission effect of fire-sales” related to “the expected impact of a banking organization’s failure.” As explained by the Board, this methodology is a more accurate measure of the systemic risk posed by STWF reliance, as changes in RWAs unrelated to STWF can impact method 2 scores in the legacy calculation.¹¹ We agree with the Board’s rationale, which we expand on in the following pages.

The legacy calculation is unnecessarily complex. The legacy calculation is structured to produce approximately one fifth of a banking organization’s GSIB score by applying a fixed conversion factor to the ratio of STWF to RWAs. The other four fifths of the capital surcharge indicators are calculated by multiplying raw exposure data by a coefficient. There is no reason why a coefficient-based approach cannot be applied in the same manner across all five indicator categories.

The proposed methodology supports a simpler approach to annual coefficient indexing to adjust for future economic growth. Under the legacy STWF indicator calculation, a banking organization’s STWF score could fluctuate despite STWF exposure remaining constant due to changes in RWAs. The legacy formulation does not lend itself to being readily adjustable for growth and inflation in the future as contemplated under the proposal. In contrast, the revised STWF indicator no longer includes a fluctuating denominator and is, therefore, based on the same mathematical foundation as the other four method 2

⁸ 80 Fed. Reg. at 49,100-01.

⁹ 91 Fed. Reg. at 14,915-16.

¹⁰ 91 Fed. Reg. at 14,915.

¹¹ 91 Fed. Reg. at 14,916.

indicators. As a result, the Board can apply a single, uniform indexing adjustment annually to all GSIB Surcharge coefficients (including the STWF coefficient) to account for the impacts of future economic growth and inflation.

The revised methodology is responsive to evidence from the 2023 regional bank failures. FDIC staff published, in May 2026, an analysis of the spring 2023 bank failures.¹² This analysis focused on liability structures at the failed banks, in particular deposit concentrations and composition. The report does not discuss the ratio of STWF to RWAs or, more generally, RWAs as a factor in the failures. The evidence assembled in the FDIC staff report supports a conclusion that STWF should be measured independently of RWAs, consistent with the GSIB Surcharge Proposal.

The proposed coefficient approach is superior to potential alternative denominators in the STWF methodology. In theory, the Board might choose to replace RWAs from the STWF denominator with an alternative reference value—for example, total leverage exposure or total assets. Modifying the STWF methodology in this manner would replicate, albeit in different form, the same flaws that exist in the current methodology. STWF is no different than other systemic risk indicators; similar to the value of intra-financial system assets in the Interconnectedness indicator or the notional value of OTC derivatives in the Complexity indicator, STWF exposure represents a raw data value that approximates a measure of an institution’s systemic risk in a given area. However, each relevant raw data value must be subject to an indicator-specific coefficient to coherently inform the overall surcharge calculation. Non-STWF exposure data is not normalized by a denominator in the current rule—for example, neither intra-financial system assets nor notional OTC derivatives exposures are divided by RWAs, total leverage exposure, or total assets—demonstrating that the raw data value of any given indicator can be measured on its own terms and scaled for purposes of the method 2 calculation through an indicator-specific coefficient. Applying any denominator to the STWF calculation adds inherent, unnecessary complexity and introduces confusion between the value measured in the numerator and its relationship to another reference value in the denominator.

The Board should prioritize prompt adoption of the revised GSIB Surcharge framework and adopt transition mechanisms to avoid surcharge increases under the legacy methodology

As noted earlier in this letter, the Board raised concerns with the “mismeasurement of systemic risk” associated with the legacy GSIB Surcharge methodology and documented the steady rise of method 2 scores since 2019 driven by macroeconomic factors.¹³ The Board’s evidence summarized score inflation as of Q4 2024 but not on a projected basis in the coming years.¹⁴ Given the multiyear process by which changes in GSIB Surcharges occur—for example, under the rule’s normal course mechanics, 2026 data will inform surcharges applicable as of January 1, 2028 (if lower than surcharges based on 2025 data)—the Board should adopt a mechanism to arrest inflation in surcharges until the revised GSIB Surcharge methodology is fully in place. Absent transition arrangements, even near-term adoption of a final rule may still result in increases in applied GSIB Surcharges in 2027 and 2028 before new surcharges

¹² FDIC Staff Studies, “Dissecting Depositor Flight: An Analysis of the Spring 2023 Bank Failures” (May 2026) ([link](#)).

¹³ 91 Fed. Reg. at 14,912-13.

¹⁴ 91 Fed. Reg. at 14,912-13.

calculated under the revised methodology take effect on a multiyear delay. Increases in GSIB Surcharges in 2027 would be based on 2024 data, even though by that year the Board’s Vice Chair for Supervision acknowledged inflationary distortions in the surcharge methodology.¹⁵

The Board should cap GSIB Surcharges as of the date of adoption of a final rule until surcharges calculated under the revised methodology are in effect. The GSIB Surcharge Proposal acknowledges shortcomings in the legacy framework that have caused inflation in method 2 scores since 2019. Since surcharges calculated under the revised methodology will only take effect in the normal course after several years—the revised rule must be finalized, data must be reported under revised standards, and revised surcharges take effect only on a delayed basis—there is a risk that surcharges will continue to increase through 2027 or 2028 until fully updated surcharges take effect. Increases in surcharges during this period would frustrate the Board’s intention to correct for inflation in method 2 scores and exacerbate volatility in capital requirements. Given the method 2 score inflation evidence cited by the Board, it would be reasonable to cap surcharges at levels applicable on the date a final rule is adopted (e.g., assuming a final rule is adopted by December 31, 2026, GSIB Surcharges would be capped at January 1, 2026, levels until revised surcharges take effect in the normal course).

The Board should promptly adopt the revised methodology and use year-end 2026 data to calculate surcharges taking effect on January 1, 2028 (in the event of a surcharge decrease). Assuming the Board adopts a final rule in late 2026, the revised methodology could be applied to year-end data from 2026 to calculate surcharges effective January 1, 2028 (if a decrease) or January 1, 2029 (if an increase). This approach would also be aligned with the Board’s implementation of the original GSIB Surcharge final rulemaking in 2015, which required firms to use a mix of 2014 year-end and third quarter 2015 data to calculate surcharges taking effect January 1, 2016.¹⁶ In that case, the Board required use of pre-final rulemaking data to calculate surcharges taking effect less than six months after adoption of the final rule. Accelerated implementation of the revised surcharge methodology in this manner would both “reset” surcharges promptly based on the revised methodology and avoid further inflation in applied surcharges calculated under the legacy methodology.

Reporting mechanics utilized by the final rule should ensure incorporation of all relevant prior-period data

The GSIB Surcharge Proposal anticipates that, after revised standards take effect, prior-period reported data will be incorporated in surcharge calculations until there are four quarters of reported data

¹⁵ Then-Vice Chair for Supervision Michael S. Barr, “The Next Steps on Capital” (Sep. 10, 2024) ([link](#)), p. 11 (“The U.S. G-SIB surcharge was set nearly nine years ago, and the growth in the economy since 2015 has meant that G-SIBs’ measures of systemic risk have increased, even for firms whose share of domestic or global economic activity has not increased. The Board noted the potential for this effect in the original 2015 G-SIB rule. . . . I intend to recommend that we improve the calculation of the capital surcharges for G-SIBs by reflecting changes in the global banking system since the Board adopted the G-SIB surcharge in 2015.”).

¹⁶ 80 Fed. Reg. at 49,094 (“The GSIB surcharge in effect on January 1, 2016, must be calculated by December 31, 2015. All components (other than short-term wholesale funding) will be based on the systemic indicator scores reported by a GSIB on the FR Y-15 as of December 31, 2014, and the aggregate global indicator amounts published by the Board in the fourth quarter of 2014. The short-term wholesale funding score will be based on the average of its weighted short-term wholesale funding amounts calculated for July 31, 2015, August 24, 2015, and September 30, 2015.”).

under revised standards.¹⁷ The proposal introduces new reporting terminology, however, that could give rise to confusion. We recommend that the Board confirm in the final rule how relevant prior-period reported data will be incorporated.

In its current form, the GSIB Surcharge's STWF calculation methodology is codified in Section 406 of the Board's capital rule, with regulatory reporting captured in FR Y-15 reporting through a line item labeled "total short-term wholesale funding." Under the proposal, Section 406 would be eliminated and Table 1 to Section 405 would be revised to add "weighted short-term wholesale funding amount" as a systemic indicator, with that same term added to FR Y-15 reporting. The Board should confirm that, despite these nomenclature and regulatory citation changes, legacy "total short-term wholesale funding" reported values will be included in the "weighted short-term wholesale funding amount" calculations required by Table 1 to revised Section 405.

The Board should consider, in the future, the interplay of the STWF definition with U.S. GSIBs' UST markets intermediation activities

The STWF methodology currently (and as proposed in the future) applies charges for financings with remaining maturity of 90 days or less secured by U.S. Treasury securities.¹⁸ While the weighting of these charges is modest in the STWF formula, high-volume activity can impact overall scores. While not included as a proposed revision in the GSIB Surcharge Proposal, we note that application of STWF charges in any form to financing activities collateralized by USTs imposes marginal cost frictions for U.S. GSIBs engaged in these activities. These marginal cost frictions may require reexamination in connection with the Securities and Exchange Commission's ("SEC") U.S. Treasury securities clearing mandate, compliance for which is required by June 30, 2027, for repurchase transactions collateralized by such securities.¹⁹ More generally, the prospect of potential reforms to prudential liquidity regulatory standards—as previewed publicly by Treasury Secretary Bessent and Vice Chair for Supervision Bowman²⁰—raises similar questions around whether these marginal cost frictions serve a clear regulatory policy objective as the regulatory framework has evolved since the original adoption of the GSIB Surcharge framework in 2015.

Pending a future review of these issues, we note that the proposal, by reducing the weighting of the STWF indicator, better supports U.S. GSIBs' UST market intermediation activities than the legacy methodology.

¹⁷ 91 Fed. Reg. at 14,929.

¹⁸ Table 1 to 12 C.F.R. § 217.406.

¹⁹ 90 Fed. Reg. 11,134 (Mar. 4, 2025).

²⁰ U.S. Treasury Secretary Scott Bessent, "Remarks: A Reset on Liquidity Regulation" (Mar. 3, 2026) ([link](#)); Vice Chair for Supervision Michelle W. Bowman, "Liquidity Resilience, Financial Stability, and the Role of the Federal Reserve" (Mar. 3, 2026) ([link](#)).

Appendix 2: Credit Risk

We support the proposed approaches to investment grade and non-significant equity investments standards

The investment grade standard is well-calibrated and supported by risk management considerations. The Basel III Proposal correctly assigns a lower risk weight to exposures to investment grade (“IG”) counterparties without regard to whether such counterparties have issued publicly traded debt securities. As explained by the proposal, supervisors and banking organizations have more than a decade of operational experience applying the current IG definition, which is reinforced in the proposal by a requirement that “the internal credit risk rating system that a banking organization would rely upon to make investment grade determinations also be used to inform material business or risk management decisions.”¹

Retaining the current non-significant equity investments treatment avoids unnecessary complexity and incentivizes responsible capital management. We support the Agencies’ decision to retain the current regulatory capital treatment of non-significant equity exposures. Imposing revised standards would, as recognized by the Agencies, introduce meaningful operational burdens on banking organizations.² In addition, any revised approach would potentially require a large degree of complexity in assigning variable risk weights to different subcategories of non-significant equity exposures, which arise from a diverse range of investments and are sometimes linked directly or indirectly to public policy objectives.³ Risk weights assigned to non-significant equity exposures should also, logically, be lower than risk weights assigned to significant equity exposures, giving rise to other technical calibration challenges to ensure appropriate calibration across exposure types. There is also no evidence that the existing capital treatment has incentivized poor risk management or capital management; the 100 percent risk weight treatment is subject to a threshold above which higher capital requirements apply, effectively capping bank investments in this area.

The models-based credit risk methodology should be retained for use outside of the RWA framework in credit risk exposure standards, such as SCCL and lending limits

The Basel III Proposal would eliminate IMM as an available credit risk exposure methodology for RWAs. IMM is a Basel Accord-compliant credit exposure methodology that banks are currently, and in the future will continue to be, permitted to utilize under regulatory capital standards in Japan, the

¹ 91 Fed. Reg. at 14,975.

² 91 Fed. Reg. at 15,008.

³ In considering whether to replace the current 100 percent risk weight for non-significant equity exposures with a more granular framework, the Agencies concluded that “the cost associated with replacing the current treatment for non-significant equity exposures may be higher than the improvement in risk sensitivity,” noting that banking organizations “have developed internal reporting systems and processes to apply the current capital rule’s 100 percent risk weight for non-significant equity exposures.” The Agencies therefore chose “to balance risk sensitivity with burden” by retaining the existing treatment. 91 Fed. Reg. at 15,008.

European Union and the United Kingdom.⁴ The analytical principles and data inputs of IMM are more closely aligned with credit risk management practices utilized by banks than standardized methodologies. Even if IMM is no longer required for regulatory capital, retaining IMM capabilities remains critical for sound risk management. In particular, Potential Future Exposure (“PFE”), derived from IMM models, provides a forward-looking view of tail exposure that is essential for limit setting, margining, and risk appetite calibration—capabilities that cannot be replicated by simpler, static exposure measures, even acknowledging PFE’s limitations as a standalone metric.

The Agencies have made a policy judgment in the Basel III Proposal to eliminate IMM as a methodology for calculating Credit Risk RWAs. As proposed, the Standardized Approach Credit Risk methodology will likely result in more comparable RWA calculations across banks and, through IG and LTV mortgage standards, incorporates an improved degree of risk sensitivity over legacy Standardized Approach Credit Risk exposure calculations. Adoption of a single Credit Risk RWA methodology applicable to Category I and II banking organizations also simplifies the regulatory capital framework, an improvement from the current “two stack” framework. The absence of IMM as an available Credit Risk RWA methodology also buttresses the Agencies’ decision to not impose an “output floor” as model-based credit risk RWA calculations may be expected to drive the largest aggregate RWA differences relative to calculations based only on standardized methodologies.

The Board did not calibrate SCCL based on Standardized Approach credit exposure measurements. When considering the SCCL rulemaking, the Board published a white paper explaining its calibration choices for proposing a lower credit limit between Systemically Important Financial Institutions (“SIFIs”).⁵ As explained in this white paper, the Board utilized “a calibrated quantitative credit risk model . . . to provide a range of credit exposure limits that would be expected to ensure that the resulting credit risk on an inter-SIFI credit extension is no greater than the credit risk that arises in the context of a SIFI to non-SIFI credit extension.”⁶ This analysis considered “the resulting probability of the bank’s default as a function of the stringency of the inter SIFI limit,” leading the Board to conclude that “as the inter-SIFI limit is tightened, the probability of default declines.”⁷ While the Board did not disclose all technical details of its SCCL calibration model, it appears to have utilized IMM-type analytical tools to set the inter-SIFI credit limit, which raises concerns that elimination of IMM as a credit exposure methodology may result in exposure calculations unmoored from the analysis utilized to set the inter-SIFI exposure limit.

The Board has not adequately explained the effect of removing IMM as a permitted SCCL methodology. The Board explained, in 2016, that it intended to permit banking organizations to utilize IMM as a credit exposure methodology in SCCL because the Current Exposure Method (“CEM”) “may

⁴ Financial Services Agency, Notice No. 19 of 2006, Article 79 through Article 79-3-6 ([link](#)) (Japan); Capital Requirements Regulation No 575/2013, as amended, Article 283 ([link](#)) (EU); Counterparty Credit Risk (CRR) rulebook, Article 283, as amended by PS3/26 (effective Jan. 1, 2027) ([link](#)) (UK).

⁵ Board, “Calibrating the Single-Counterparty Credit Limit between Systemically Important Financial Institutions” (Mar. 4, 2016) (“**SCCL Calibration White Paper**”) ([link](#)). See also 83 Fed. Reg. 38,460, 38,472 (Aug. 6, 2018) (citing the SCCL Calibration White Paper analysis in the SCCL final rulemaking).

⁶ SCCL Calibration White Paper, p. 4.

⁷ SCCL Calibration White Paper, p. 15.

not take fully into account correlations and netting relationships, and therefore, under certain circumstances, may overstate counterparty credit risk.”⁸ Similarly, in 2018, when adopting the final SCCL rulemaking, the Board explained that it was permitting the use of internal models for calculating exposures from securities financing transactions (“SFTs”) and derivative transactions but “may revisit the approach” for SFTs depending on future changes in the regulatory capital framework.⁹ Subsequently, when adopting final rules to implement SA-CCR, the Board acknowledged that IMM remained an available methodology for SCCL without any discussion or analysis of whether SA-CCR was sufficiently well designed for SCCL purposes to eliminate IMM in this framework.¹⁰ The Basel III Proposal requests comment on the effect of eliminating IMM as an available Credit Risk methodology generally but includes no analysis of the impact of such a change in the SCCL framework specifically, which had been identified as a potential issue more than a decade ago.¹¹ Before taking the significant regulatory action of eliminating IMM as an available methodology in SCCL, the Board should provide a reasoned determination of the costs and benefits of this specific change, considering potential alternatives.

The OCC has not adequately explained the effect of removing IMM as a permitted lending limits methodology. The OCC originally permitted the use of IMM in lending limits calculations for derivative transactions and SFTs in a 2012 interim final rulemaking, which it reaffirmed in a 2013 final rulemaking. When discussing derivative transactions exposure measurements, the OCC explained in 2012 that a model used for lending limits purposes “must have been approved for purposes of section 53 of the Advanced Approaches Appendices [e.g., IMM] . . . or be another appropriate model approved by the appropriate Federal banking agency.”¹² Similarly, in the 2012 rulemaking, the OCC permitted the use of IMM “or any other appropriate model approved by the appropriate Federal banking agency” for purposes of SFT lending limits exposure calculations.¹³ The OCC confirmed this approach in its 2013 rulemaking.¹⁴ The current version of the OCC’s lending limits rule retains this flexibility, permitting use of IMM or “any other appropriate model” approved by the relevant Agency when calculating derivative transaction and SFT exposures.¹⁵ The Basel III Proposal includes no analysis of the effect on national banks’ lending limits of eliminating IMM or other “appropriate model” use; in the preamble, the OCC only discusses the effect of eligible guarantee-related changes on lending limits calculations.¹⁶ The OCC’s proposed amendments to the lending limits rule similarly would not expunge references to IMM or other “appropriate models” although, in practice, IMM would be eliminated as an available methodology by the

⁸ 81 Fed. Reg. 14,328, 14,337 (Mar. 16, 2016).

⁹ 83 Fed. Reg. at 38,474-75.

¹⁰ 85 Fed. Reg. 4,362, 4,370-71 (Jan. 24, 2020).

¹¹ 91 Fed. Reg. at 14,985 (Question 42), 15,151 (Question 199). Commenters raised concerns as early as 2012 about the absence of IMM-related analysis in the Board’s original SCCL proposed rulemaking. See Letter from The Clearing House, American Bankers Association, Financial Services Roundtable, Financial Services Forum and Securities Industry and Financial Markets Association (Apr. 27, 2012) ([link](#)), pp. C-3 and C-4 (objecting to the “basis and rationale” of the Board’s proposed SCCL credit exposure methodology, noting that “there is not, for example, any explanation as to why . . . BHCs’ IMM [were] disregarded”).

¹² 77 Fed. Reg. 37,265 (Jun. 21, 2012).

¹³ 77 Fed. Reg. at 37,268.

¹⁴ 78 Fed. Reg. 37,930, 37,933-34 (Jun. 25, 2013).

¹⁵ 12 C.F.R. §§ 32.9(b)(1)(i)(C)(I) (non-credit derivative transactions), 32.9(c)(1)(i)(A) (SFTs).

¹⁶ 91 Fed. Reg. at 15,150.

rulemaking.¹⁷ The Basel III Proposal does not include a reasoned determination of the costs and benefits of this specific change, considering potential alternatives.

Retaining IMM as an available credit risk methodology in SCCL and legal lending limits is a reasonable alternative to elimination. As explained above, each of the Board and the OCC has periodically considered the use of IMM in credit exposure limit regulatory standards for more than a decade and each time reaffirmed their continued availability. Banking organizations are only permitted to use IMM in these credit exposure calculations if models have received supervisory approval, ensuring appropriate oversight and review. Publicly available records indicate that the OCC has not brought an enforcement action against any national bank since 2012 related to the use of IMM in lending limits, suggesting that IMM has not led to exposure limit management violations that warrant significant renovation of the lending limits framework.¹⁸ The Basel III Proposal explains the proposed elimination of IMM as responding to evidence suggesting Advanced Approach methodologies “do not always result in consistent minimum requirements across U.S. banking organizations with similar risk profiles” as opposed to concerns with credit exposure management in SCCL or lending limits.¹⁹ Given this context, the Agencies should retain Sections 100-101, 121-124, and 131-136 of the legacy regulatory capital framework, thereby retaining IMM in Agency-approved regulatory standards, facilitating its use in SCCL and legal lending limits.²⁰ Retaining IMM for these purposes is clearly a reasonable alternative to elimination of this methodology through this rulemaking, which has not evaluated the second-order effects on non-regulatory capital credit exposure standards.²¹

The OCC should exempt exposures to Qualifying Central Counterparties from legal lending limits, aligning exposure management standards with the Board’s SCCL framework. The OCC proposed changes to its legal lending limits standards in the Basel III Proposal, opening this framework for

¹⁷ 91 Fed. Reg. at 15,288. The OCC did not propose amendments in the Basel III Proposal to modify Part 32 standards to remove cross-references to IMM as an approved methodology for exposure calculations used in legal lending limits. The existing cross-references would, however, appear to become inoperative upon the effective date of the Basel III Proposal. See 12 C.F.R. §§ 32.9(b)(1)(i)(C)(I)(i) (permitting the use of IMM for calculating lending limits involving certain derivative transaction exposures), 32.9(c)(1)(i)(A)(I) (permitting the use of IMM for calculating lending limits involving SFT exposures). The absence of an explicit discussion of impacts to the legal lending limits framework from the elimination of IMM suggests the issue was not suitably raised for comment in this proposal. See *FCC v. Fox Television Stations, Inc.*, 556 U.S. 502, 515 (2009) (“[T]he requirement that an agency provide reasoned explanation for its action would ordinarily demand that it display awareness that it is changing position. An agency may not, for example, depart from a prior policy *sub silentio* . . .”).

¹⁸ OCC, “Enforcement Actions Search” ([link](#)) (search performed Jun. 17, 2026).

¹⁹ 91 Fed. Reg. at 14,958.

²⁰ Retaining IMM standards in the Agencies’ capital rules, even if IMM is inoperative as an RWA methodology, would avoid the procedural complexity of proposing amendments to SCCL and legal lending limits regulations to codify IMM separately in those frameworks. Over time, the Agencies might propose revisions to regulatory standards to codify IMM directly into the SCCL and legal lending limits frameworks.

²¹ At least for purposes of legal lending limits, the OCC could continue to permit ongoing use of IMM even if it were eliminated as a regulatory capital standard by this rulemaking, since the OCC is permitted by Part 32 to authorize national banks to use any “appropriate model,” without limitation to a model approved for regulatory capital purposes, for calculating credit exposures from derivative contracts and SFTs. 12 C.F.R. §§ 32.9(b)(1)(i)(C)(I)(ii) (non-credit derivative transactions), 32.9(c)(1)(i)(A)(2) (SFTs). But it would clearly promote standardization in calculations and rigorous supervisory oversight to rely instead on models approved pursuant to formally adopted regulatory standards.

comment on related technical issues.²² In current practice, the Board’s SCCL and the OCC’s lending limits standards are broadly similar in their design, operation and objectives but differ in their approach to a banking organization’s exposures to qualifying central counterparties (“QCCPs”): QCCP exposures are exempt in SCCL but not in lending limits.²³ We recommend that the OCC align its standards with the Board’s and recognize a similar QCCP exemption. The statutory framework governing each standard is similar and the OCC previously considered a clearinghouse exemption following enactment of the Dodd-Frank Act.²⁴ As national banks have grown their cleared transaction volumes—consistent with regulatory mandates and incentives—the absence of a QCCP exemption in legal lending limits has become more frictional, particularly when compared with SCCL and particularly in cleared derivative asset classes primarily engaged in by bank entities.²⁵ The introduction of a UST clearing mandate may further compound these frictions for national banks facilitating clients’ cleared USTs transactions.²⁶ We recommend that the OCC recognize a QCCP exemption in lending limits through technical amendments adopted in connection with finalizing the Basel III Proposal, through a separate near-term regulatory proposal, or by supervisory action.

²² 91 Fed. Reg. at 15,150, 15,288.

²³ See 12 C.F.R. § 252.77(a)(3) (codifying the SCCL QCCP exemption); 12 C.F.R. Part 32 (providing no legal lending limits QCCP exemption).

²⁴ The statutory authority for the Board’s SCCL framework is Section 165(e) of the Dodd-Frank Act, which requires that exposure limits include derivative transactions, without reference to whether limits must apply to all derivative transactions or only to non-cleared derivative transactions. 12 U.S.C. § 5365(e)(3)(E). Section 610 of the Dodd-Frank Act similarly amended 12 U.S.C. § 84(b) to require that national bank lending limits include derivative transactions, again without reference to whether limits must apply to all derivative transactions or only to non-cleared derivative transactions. 12 U.S.C. § 84(b)(3). While 12 U.S.C. § 5365(e)(6) expressly authorizes the Board to grant “transaction” exemptions, and 12 U.S.C. § 84 lacks a similar clause, the OCC has not viewed this statutory language distinction as foreclosing potential lending limits exemptions. In its 2013 final rulemaking, the OCC declined to grant a lending limits clearinghouse exemption but framed this decision as a policy judgment, not a statutory requirement, and observed that “the role of central counterparties in the domestic and international financial industry is dynamic” and “the OCC will continue to monitor the role of central counterparties and will revisit our lending limits rule for exposures to such entities if necessary.” 78 Fed. Reg. at 37,936. Following this, the Board adopted, in 2018, a final SCCL rulemaking which exempts QCCPs from exposure limits “because of the concern that application of single-counterparty credit limits to these exposures would require firms to spread activity across a greater number of CCPs, which could lead to a reduction in multilateral netting benefits.” 83 Fed. Reg. at 38,484. The Board’s policy analysis is relevant for the OCC’s reconsideration of this issue more than a decade after the OCC’s decision not to grant a QCCP exemption in its 2013 rulemaking.

²⁵ In the fourth quarter of 2025, the notional value of cleared interest rate derivative transactions by U.S. commercial banks and savings associations was \$64 trillion and the notional value of all centrally cleared derivatives by these banks was \$71 trillion. OCC, Quarterly Report on Bank Trading and Derivatives Activities (“**OCC Q4 2025 Derivatives Report**”) ([link](#)), p. 46, Figure 21. While the OCC data does not report holding company-level consolidated data on cleared transactions by asset class, OCC data on derivatives trading revenue indicates that more than 80 percent of consolidated trading revenues in interest rate instruments were earned in Q4 2025 by bank entities. OCC Q4 2025 Derivatives Report, p. 2, Tables 1, 2 (reporting \$2,046 million in bank entity-level trading revenues in interest rate instruments in Q4 2025 versus \$2,444 million in consolidated holding company revenues in the same products).

²⁶ See 89 Fed. Reg. 2,714 (Jan. 16, 2024) (imposing a clearing mandate on Covered Clearing Agencies); 90 Fed. Reg. 11,134 (Mar. 4, 2025) (revising the clearing mandate to Dec. 31, 2026, for eligible cash market transactions and to Jun. 30, 2027, for eligible repo transactions). See also 81 Fed. Reg. 70,786 (Oct. 13, 2016) (establishing enhanced standards for the operation and governance of Covered Clearing Agencies).

The definitions of “commitment,” “traditional securitization” and “synthetic securitization” should remain unchanged in regulatory capital standards as the proposed changes are not adequately explained or justified

The rationale for proposed definitional changes is unclear. The Basel III Proposal asserts that the Agencies “have observed an inconsistent application of the current definition of commitment” but does not explain what those inconsistencies are.²⁷ Similarly, the proposed introduction of the “solely” qualifier in the definitions of traditional securitization and synthetic securitization is included in a “technical modifications” section of the preamble with an explanation focused only on asset-backed commercial paper structures.²⁸ The economic impact analysis in the proposal does not appear to have considered the consequences of these definitional changes. The Agencies appear to have quantified commitment-related pro forma impacts related to credit conversion factor changes by relying on data submitted in a special data collection template and regulatory reporting aligned with the current definition. However, there is no discussion of whether the scope of products included in that template aligned with the proposed definitional change and existing regulatory reporting naturally aligns with the current definition.²⁹ Similarly, the impact analysis for securitizations appears to rely on current definitions in regulatory reporting forms without consideration of product classification changes under the revised definition.³⁰ The Basel III Proposal does not adequately explain what problems the Agencies intend to address through the proposed definitional changes, what the economic impact of these definitional changes would be, or how the proposed definitions would apply to a wide range of banking products and transaction structures that have variable technical features.

The proposed rulemaking does not provide an adequate basis for submitting comments. The Agencies’ longstanding definitions have required the existence of a “legally binding arrangement that obligates” a banking organization to extend credit or purchase assets as the foundation for recognizing a commitment.³¹ Similarly, the Agencies’ securitization definitions appear to have never imposed a “solely” condition.³² The absence of any meaningful analysis of the operation of these multi-decade definitions frustrates efforts to provide product-specific comments in response, particularly given historic Agency guidance and interpretation in this area.³³ The proposed definitions appear to raise conflicts with U.S. GAAP notwithstanding that accounting principles are part of the core foundation of the regulatory capital

²⁷ 91 Fed. Reg. at 14,977.

²⁸ 91 Fed. Reg. at 14,994.

²⁹ 91 Fed. Reg. at 15,113 n. 599, 15,114.

³⁰ 91 Fed. Reg. at 15,114.

³¹ The “commitments” definition in the Agencies’ regulatory capital framework has included a “legally binding” standard since at least 1989. See 54 Fed. Reg. 4,186, 4,204 (Jan. 27, 1989); see also 69 Fed. Reg. 44,908, 44,918 (July 28, 2004) (amending the “commitments” definition but without change to the “legally binding arrangement” standard).

³² Pre-2013 Basel III final rules included no such requirement. See 12 C.F.R. Part 225, Appendix A, Section III.B.3.a.xv (2012) (“*Securitization* means the pooling and repackaging by a special purpose entity of assets or other credit exposures into securities that can be sold to investors. Securitization includes transactions that create stratified credit risk positions whose performance is dependent upon an underlying pool of credit exposures, including loans and commitments.”).

³³ See, e.g., Board, SR Letter 90-23 (Jul. 3, 1990) ([link](#)) (providing guidance on how the “original maturity” standard in the Basel I Accord should be applied for commitments analysis, including the timing mechanics for determining when “the banking organization can, at its option, unconditionally (without cause) cancel the commitment”).

framework.³⁴ The proposed definitions would apply only in the regulatory capital framework notwithstanding that similar principles apply in liquidity risk management standards; if adopted as proposed, the Agencies would apply commitment-based capital and liquidity standards to different populations of products, resulting in an incoherent framework.³⁵ The Agencies must provide an analysis and reasoned determination regarding the costs and benefits of a proposed rule and consideration of less burdensome alternatives. This standard has not been met with respect to these proposed definitional changes.

The Basel III Proposal can be finalized expeditiously without adoption of these revised definitions. Proposed changes to the definitions of commitment, traditional securitization and synthetic securitization are standalone issues, the elimination of which will not impact the operation of other elements of ERBA RWAs. Legacy definitions can be utilized by the revised capital framework. As such, the Basel III Proposal should be advanced to completion expeditiously with the current definitions of commitment, traditional securitization and synthetic securitization unchanged, which would align with the impact analysis in the proposal.

An “eligible guarantee” determination should not require an “eligible guarantor”

The Basel III Proposal would condition the existence of an “eligible guarantee” on the existence of an “eligible guarantor” with an unsecured debt security without credit enhancement that is IG.³⁶ We recommend elimination of the eligible guarantor requirement in its entirety, not simply elimination of the IG debt security requirement.³⁷

The eligible guarantor condition does not serve a clear purpose in a substitution approach methodology. The Basel III Proposal describes the eligible guarantee framework as a “substitution approach” in which the banking organization substitutes “the risk weight applicable to the eligible guarantor . . . for the risk weight applicable to the hedged exposure.”³⁸ The proposal acknowledges that the eligible guarantor criterion does not exist under the current Advanced Approach framework except for securitization exposures but does not otherwise explain the imposition of the criterion in this context.³⁹ In a substitution approach, however, the eligible guarantor condition does not serve a clear purpose: the legal enforceability criteria of the eligible guarantee definition ensure that the banking organization’s credit risk is to the guarantor. Since corporate exposures are subject to a general 100 percent risk weight, an eligible guarantee risk weight adjustment would generally only apply where the exposure is to a non-IG counterparty but an IG entity or regulated bank has provided a legally enforceable eligible guarantee. In

³⁴ See Accounting Standards Codification 326-20-20 Financial Instruments – Credit Losses (“Loan commitments are legally binding commitments to extend credit to a counterparty under certain prespecified terms and conditions. They have fixed expiration dates and may either be fixed-rate or variable-rate.”).

³⁵ The Agencies’ Liquidity Coverage Ratio standards define “credit facility” and “liquidity facility” as each involving, in relevant part, “a legally binding agreement to extend funds if requested at a future date.” 12 C.F.R. §§ 50.3 (OCC), 249.3 (Board), 329.3 (FDIC).

³⁶ 91 Fed. Reg. at 15,273 (OCC proposed amendments to 12 C.F.R. § 3.2); 91 Fed. Reg. at 15,292 (Board proposed amendments to 12 C.F.R. § 217.2); 91 Fed. Reg. at 15,315 (FDIC proposed amendments to 12 C.F.R. § 324.2).

³⁷ 91 Fed. Reg. at 14,989 (Question 51).

³⁸ 91 Fed. Reg. at 14,989.

³⁹ 91 Fed. Reg. at 14,989 n. 157.

these circumstances, a substitution approach of assigning a risk weight based on the guarantor, rather than the counterparty, would more accurately reflect the risk profile of the exposure.

If an eligible guarantor is required, eligible guarantor status should be based on investment grade status alone, not whether the guarantor has debt securities outstanding or other criteria. As explained above, we support the Agencies' proposed IG counterparty standard, which focuses on credit risk analysis fundamentals. The Basel III Proposal does not explain why, by contrast, an eligible guarantor must be both IG and have IG debt securities outstanding without credit enhancement. The existence of an eligible guarantee provides the banking organization with recourse to the guarantor; the fact that the guarantor is IG is the key credit risk management question, not whether it has unsecured debt. A substitution approach should not be contingent on debt financing practices at the guarantor.

Similarly, the requirement that the creditworthiness of an eligible guarantor "not [be] positively correlated with the credit risk of the exposures for which it has provided guarantees" disqualifies many parent company guarantees of their subsidiaries from eligible guarantee treatment, notwithstanding that these arrangements enhance credit risk management for banks with credit exposures to the subsidiaries. The disqualification of parent guarantees based on positive correlation with a guaranteed subsidiary impacts, for example, the insurance sector, where such arrangements are common and often provide meaningful credit risk protection.

We support efforts to recognize cross-product master netting agreements but recommend further refinements to the proposed exposure calculation methodology

Recognition of cross-margining arrangements supports banking organizations' intermediation of U.S. Treasury securities markets. As recognized by the Basel III Proposal, "recognizing the risk-mitigating benefits of cross-product netting better aligns capital requirements with risk because it allows offsetting risks between products to be recognized and capitalized jointly rather than separately."⁴⁰ Permitting cross-product netting arrangements to include repo-style transactions ("RSTs") and derivative transactions subject to the same master netting agreement will support banking organizations' role in USTs market intermediation, particularly facilitation of cleared RSTs and cleared futures that are subject to a single legally enforceable agreement.

SA-CCR could effectively incorporate cross-margined RSTs and derivative contracts through revised mechanics. The Basel III Proposal addresses the RWA treatment of qualifying cross-product master netting agreements through proposed amendments to SA-CCR that would incorporate RSTs into the methodology. While this approach is, in principle, reasonable, the calculation mechanics as proposed place greater emphasis on maturity mismatch as opposed to hedged notional amounts, which reduces its accuracy in capturing risk offsets across related products.⁴¹ As such, the potential utility of using qualifying cross-product master netting agreements to facilitate USTs market intermediation is impaired unless the SA-CCR mechanics are adjusted or another RWA calculation solution is adopted. We support recommendations made by the trade associations to incorporate an adjustment factor, or hedge coverage

⁴⁰ 91 Fed. Reg. at 14,984.

⁴¹ See Comment Letter submitted by ISDA, SIFMA and the IIF (Jun. 18, 2026) ([link](#)).

ratio, into the revised SA-CCR methodology to improve the risk sensitivity in netting recognition of the proposed methodology.

Alternatively, IMM could be retained as an available credit risk exposure methodology for qualifying cross-product master netting agreements. In its discussion of cross-product netting sets, the Basel III Proposal requests comment on whether IMM should be retained as a credit exposure methodology.⁴² Retaining IMM for use in this context has three advantages. First, IMM standards—unlike the legacy Standardized Approach—already incorporate a cross-product netting set exposure methodology, making it immediately available for use.⁴³ Second, IMM could be retained in the capital framework for the limited purpose of cross-product netting set RWA calculations notwithstanding the application of standardized methodologies in the remainder of the Credit Risk framework. Third, as suggested by the Agencies’ question in the proposal, IMM RWA calculations could be subject to further adjustments or overlays.

Securities held on a bankruptcy remote basis as collateral by third-party custodians in securities lending arrangements should not be included as “exposures” in the collateral haircut approach

Following current standards, the collateral haircut approach (“CHA”) methodology in the Basel III Proposal incorporates an “exposure minus collateral” calculation. The definition of “exposure” includes, in relevant part, “the fair value of the instrument, cash or gold” the banking organization “has lent, sold subject to repurchase, or posted as collateral to the counterparty.”⁴⁴ This definition does not appear to contemplate circumstances in which a banking organization delivers securities to a third-party custodian on a legally segregated, bankruptcy remote basis with no reuse or rehypothecation rights, which results in the banking organization having no “exposure” to the securities lender since the banking organization has not “posted” collateral to it. Instead, in this example, the banking organization should logically include zero as the value of the CHA “exposure” amount since it has no risk of loss in the event of the default of either the securities lender or the third-party custodian. This recommendation would be consistent with the capital treatment for equivalent bankruptcy structures in the context of cleared transactions as well as derivative transactions (through the definition of net independent collateral amount). We request that the Agencies confirm this interpretation in the final rule, subject to legal diligence requirements.

⁴² 91 Fed. Reg. at 14,985 (Question 42).

⁴³ 12 C.F.R. § 3.132(a)(3), (d)(1)(iii) (OCC); 12 C.F.R. § 217.132(a)(3), (d)(1)(iii) (Board); 12 C.F.R. § 324.132(a)(3), (d)(1)(iii) (FDIC).

⁴⁴ 91 Fed. Reg. at 15,172 (Section 115(a)).

Appendix 3: Operational Risk

The Basel III Proposal would introduce a new standardized methodology for calculating Operational Risk RWAs. As proposed, these Operational Risk RWA standards would include adjustments reflecting operational loss history and risk management practices at U.S. banking organizations as well as evidence of U.S. banking organizations' business models, which place heavier emphasis on "services"- or "noninterest"-related businesses than contemplated by global standards adopted by the Basel Committee. We are broadly supportive of the proposed Operational Risk RWA framework, with technical comments in specific areas as explained below.

We support the proposed calibration of Operational Risk RWAs for wealth management and asset management activities, consistent with evidence of these business lines' operational risk profiles

The proposed calibration accurately incorporates objective evidence of the operational risk profiles of wealth management and asset management business lines. The Basel III Proposal would reduce, by 70 percent, the measurement of noninterest income and expenses from investment management (including asset management and wealth management), investment services, and non-lending treasury services as incorporated into the noninterest income component of the Operational Risk capital calculation. The proposal cites evidence quantifying the historical operational losses-to-income ratio for these activities as approximately 32 percent of the same ratio for all activities conducted by Category I and II holding companies, justifying the downward calibration.¹ We support this revised calibration, which relies on an evidence-based approach to setting U.S. regulatory capital standards and provides appropriate capital management incentives to U.S. banking organizations.²

Operational Risk standards adopted by the Basel Committee did not appropriately capture evidence of U.S. banking organizations' wealth management and asset management business lines. The Basel Committee, when developing Operational Risk standards, identified but did not resolve frictions and miscalibrations associated with fee-based businesses.³ These standards, if applied without

¹ 91 Fed. Reg. at 15,011-12, 15,013 (Question 87).

² The need for adjustments to Operational Risk standards as applied to wealth management and asset management business lines was acknowledged by Board members repeatedly in recent years. *See, e.g.*, Vice Chair for Supervision Michelle W. Bowman, "Capital Rules for the Real Economy" (Mar. 12, 2026) ([link](#)), p. 4 ("Staff analysis also indicates that certain activities, like wealth management and custody services, have historically exhibited lower levels of operational risk, and the proposed requirements are calibrated to reflect those differences."); then-Vice Chair for Supervision Michael S. Barr, "The Next Steps on Capital" (Sep. 10, 2024) ([link](#)), p. 7 ("I plan to recommend to the Board that we reduce operational risk capital requirements for investment management activities to reflect the smaller historical operational losses for these activities relative to income We have found evidence that investment management has historically experienced noticeably low operational losses relative to income produced."). *See also* Comment Letter from the Bank Policy Institute and the American Bankers Association (Jan. 16, 2024) ([link](#)), p. 90 ("Failure to adjust the [Operational Risk] services component would disincentivize banks from diversifying their streams of revenue via custody, wealth management, investment advisory and other fee-generating activities.").

³ *See* Basel Committee on Banking Supervision, "Consultative Document: Operational risk - Revisions to the simpler approaches," Oct. 2014 ([link](#)), ¶ 46 ("A small number of banks that are highly specialised in fee businesses have been identified as facing a disproportionately high capital impact . . ."); Basel Committee on Banking Supervision, "Consultative Document: Standardised Measurement Approach for operational risk," Mar. 2016 ([link](#)),

modification to U.S. banking organizations, would result in substantial errors in operational risk measurement, given the large presence of these firms in wealth management and asset management business lines.⁴

We support the proposed netting of income and expenses in the calculation of the noninterest component

The Basel III Proposal modifies Basel Accord standards through the creation of a single “noninterest” component with netting of income and expenses permitted across items within this category for purposes of the business indicator. As explained in the proposal, this approach improves consistency within the Operational Risk framework by applying, in this component, similar calculation principles and mechanics as apply in the interest, lease and dividend component. Similarly, “one-stop netting” within the noninterest component also achieves greater consistency across banking organizations, taking into account “the range of acceptable accounting practices” that can result in differences in accounting presentation and regulatory reporting at different firms engaged in the same activities.⁵

Netting mechanics within the noninterest component should be confirmed to avoid potential confusion and inconsistent application

The Basel III Proposal would introduce a new Standardized Approach for Operational Risk (“SA-OR”) with a framework primarily based on standardized measures of business volumes, referred to as the Business Indicator (“BI”). As proposed, BI equals the sum of two components: the interest, lease, and dividend component (“ILDC”) and the noninterest component (“NIC”), a simplification to the Basel Accord standards that instead calculated BI based on three components. We support the creation of NIC as a single component, which reduces complexity in the Basel Accord framework and is better designed for application to the diverse mix of business activities engaged in by U.S. banking organizations. We also support the proposed netting of revenues and expenses within the NIC, which results in a measure of business activity more analogous to netting principles applied in the ILDC and reduces the complexity of attempting to apply more granular netting to individual business activities captured by the NIC. As the preamble acknowledges, this approach improves consistency with the treatment applied to the ILDC and helps mitigate variability arising from differences in banking organizations’ accounting classification practices.⁶

The final rule should confirm how netting within the NIC is applied in practice. The NIC would capture fee- and commission-based activities, trading activity, unrealized gains and losses on available-for-sale and held-to-maturity securities, and other activities associated with a banking organization’s

¶ 46 (proposing potential technical solutions to the issues identified in the prior consultation which were not adopted in final Basel Accord standards).

⁴ See Comment Letter from the Bank Policy Institute and the American Bankers Association (Jan. 16, 2024) ([link](#)), p. 90 (summarizing evidence that U.S. banking organizations, relative to global peers, have higher proportions of noninterest income and observing that “[f]ailure to adjust the [Operational Risk] services component would disincentivize banks from diversifying their streams of revenue via custody, wealth management, investment advisory and other fee-generating activities.”).

⁵ 91 Fed. Reg. at 15,011.

⁶ 91 Fed. Reg. at 15,011.

assets and liabilities. As part of the NIC, noninterest income would be netted against “noninterest expense for BI,” and the contribution of investment management, investment services, and non-lending treasury services together would be reduced by 70 percent to reflect the lower operational risk that these activities have historically presented.⁷

The scope of noninterest expense is unclear. Under the proposal, “noninterest expense for BI” means expense reported as “other noninterest expense” in the consolidated financial statements of the banking organization (i.e., the FR Y-9C report), “excluding expenses that relate to non-financial services received by the banking organization and total operational losses.”⁸ The preamble identifies several categories of expenses that must be excluded: staff expenses, expenses to outsource non-financial services (such as logistical, human resources, and information technology), administrative expenses (such as utilities, telecommunications, travel, office supplies, and postage), expenses relating to premises and fixed assets, and depreciation of tangible and intangible assets.⁹ However, the proposal does not provide a corresponding list of financial services-related expenses that do qualify for inclusion in the netting calculation. There are also reasonable policy arguments for including certain compensation expenses as eligible for inclusion in “noninterest expense for BI,” such as compensation for financial advisors (“FAs”) that is necessary for wealth management businesses to generate FA-dependent revenues.

This omission creates uncertainty in the calculation mechanics of “noninterest expense for BI.” Unlike other BI subcomponents, for which the preamble indicates alignment with specific FR Y-9C line items, the definition of noninterest expense does not directly correspond to any single regulatory reporting category, requiring banking organizations to perform more granular, judgment-based assessments at the sub-FR Y-9C line-item level to determine which of their reported expenses relate to “financial services” within the meaning of the proposal.

The treatment of specific line items in regulatory reporting should be clarified in the final rule. “Total noninterest expense,” as reported in a banking organization’s consolidated financial statements, encompasses a wide range of items, many of which are clearly non-financial in nature and should be excluded in accordance with the proposal. Setting aside clearly excludable categories enumerated in the preamble and “total noninterest expense,” there exist significant categories of expenses within “other noninterest expense” that vary with noninterest income and/or that are directly linked to the provision of financial services, which the proposal does not explicitly address. These amounts are not trivial; Morgan Stanley reported more than \$14.8 billion in “other noninterest expense” in its Form FR Y-9C for the period ending December 31, 2025, making it a significant driver of “total noninterest expense.”¹⁰ The relevant FR Y-9C noninterest expense reporting line items are identified below for reference.

⁷ 91 Fed. Reg. at 15,011 (Proposed Rule Section 150(c)(1)(ii)).

⁸ 91 Fed. Reg. at 15,155-56 (Proposed Rule Section 101).

⁹ 91 Fed. Reg. at 15,013.

¹⁰ Morgan Stanley, Form FR Y-9C for the period ending December 31, 2025, Schedule HI, Line Item 7.d. ([link](#)).

7. Noninterest expense:		
a. Salaries and employee benefits	4135	
b. Expenses of premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)	4217	
c. (1) Goodwill impairment losses	C216	
(2) Amortization expense and impairment losses for other intangible assets	C232	
d. Other noninterest expense ⁹	4092	
e. Total noninterest expense (sum of items 7.a through 7.d)	4093	

Amounts reported in the “other noninterest expense” category include, among others, brokerage, clearing and exchange (“BC&E”) fees; consulting and advisory expenses; data processing expenses; transactional taxes; licenses and fees; and certain technological costs that are integral to the delivery of financial services, as further illustrated by Form FR Y-9C reporting line items.

7. Other noninterest expense (from Schedule HI, item 7.d, above) (only report amounts greater than \$100,000 that exceed 7 percent of the sum of Schedule HI, item 7.d):		
a. Data processing expenses	C017	
b. Advertising and marketing expenses	0497	
c. Directors' fees	4136	
d. Printing, stationery, and supplies	C018	
e. Postage	8403	
f. Legal fees and expenses	4141	
g. FDIC deposit insurance assessments ²	4146	
h. Accounting and auditing expenses	F556	
i. Consulting and advisory expenses	F557	
j. Automated teller machine (ATM) and interchange expenses	F558	
k. Telecommunications expenses	F559	
l. Other real estate owned expenses	Y923	

Achieving clarity in the scope of noninterest expenses eligible for netting is necessary for the rule to be applied consistently across banking organizations. The practical consequences of this lack of clarity are significant. For a large, diversified banking organization, the difference between capturing in the NIC a narrow scope of expense categories and a broader list that encompasses all expenses that support the delivery of financial services can result in materially different RWAs. This degree of variability is difficult to reconcile with the standardization objectives of the SA-OR and could result in inconsistent capital outcomes across firms that engage in economically similar activities but classify expenses differently in their financial statements.

Broader recognition of noninterest expenses eligible for netting would support the policy objectives of the proposal. The preamble explains that netting noninterest income and expenses is intended to improve consistency with the treatment applied to the ILDC and ensure that the operational risk framework does not produce divergent capital outcomes based solely on differences in how banking organizations classify accounting items. These objectives reflect a recognition that the BI should measure the net economic scale of a banking organization’s fee- and commission-based activities. If only a narrow subset of directly transactional costs are permitted to offset noninterest income, the netting mechanic would not fully achieve its intended effect. Many expenses that a banking organization incurs in the ordinary course of delivering financial services would remain excluded, and the NIC may function, in practical terms, as something closer to a gross revenue measure for certain fee-generating activities.

Consider a banking organization that generates substantial advisory, brokerage, or asset management fee income. The delivery of these services requires significant expenditures on consulting and advisory support, technology infrastructure and data processing, legal and compliance functions, marketing and client development, and regulatory assessments. These costs are not incidental to the banking organization's financial services activities; they are the operational inputs without which the corresponding fee income could not be produced. Allowing netting for transaction-level clearing fees while excluding consulting, technology, and legal costs that are equally integral to the same revenue-generating activities would create an economically unjustified asymmetry within the NIC. The resulting BI would overstate the net income contribution of these activities, inflate the NIC, and compound that overstatement into disproportionate operational risk RWAs.

Netting-eligible noninterest expenses should include expenses necessary for a banking organization's generation of noninterest income. We recommend that the Agencies provide, in the final rule, a list of expense categories that would qualify as "noninterest expense for BI." This would promote consistency in implementation and help prevent divergent capital outcomes across firms engaged in economically similar activities. Qualifying expense categories should capture all expenses directly correlated with financial services activities, including, but not limited to:

- Market- and volume-driven costs, such as BC&E fees, and transactional taxes;
- Regulatory and compliance costs, such as regulatory assessment fees, license and permit fees;
- Costs directly tied to the delivery of specific financial services, including consulting and advisory expenses incurred in connection with client-facing activities, legal expenses related to financial services transactions and regulatory compliance, marketing and business development expenses attributable to financial services activities, and information technology and data processing costs integral to the operation and delivery of financial services;
- Certain accounting treatment adjustments, such as revenue recognition gross-ups that result from applicable accounting standards and that inflate reported noninterest income without corresponding economic substance; and
- Other financial services-related expenses, including costs associated with financial data services, market data subscriptions, and financial modeling or analytics tools that are essential inputs to financial services activities.

Additionally, if the Agencies seek greater transparency into what firms report as financial versus non-financial noninterest expenses, they could introduce separate "noninterest financial expense" and "noninterest non-financial expense" memorandum line items in FR Y-9C regulatory reporting. Our recommendations are reflected in the table below.

Schedule HI, Item 7.d Other noninterest expense	Financial	Non-Financial
Accounting and Auditing Expenses		✓
Advertising and Marketing Expenses	✓	✓
ATM and Interchange Expenses	✓	
Bank and Credit Facilities	✓	
Brokerage Clearing and Exchange Fees	✓	
Consulting and Advisory Expenses	✓	✓
Data Processing Expenses	✓	✓
Directors' Fees		✓
FDIC Deposit Insurance Assessments		✓
Fund Administration and Sub-Transfer Agent Fees	✓	
Gross-up Revenue Recognition & Other - Other Expenses	✓	
Gross-up Revenue Recognition & Other - Professional Services	✓	
Insurance		✓
Legal Fees and Expenses	✓	
Loan Origination and Collection Expenses	✓	✓
Other Expenses		✓
Other Real Estate Owned Expenses		✓
Postage		✓
Printing, Stationery, and Supplies		✓
Regulatory Assessment Fees	✓	
Sub-Advisory Fees	✓	
Taxes/Licenses/Fees	✓	
Telecommunications Expenses		✓
Temporary Staff		✓
Travel and Entertainment Expenses		✓

Absent these clarifications, banking organizations would be required to make subjective determinations that would likely result in inconsistencies across firms, regulatory uncertainty during examinations, and potentially significant misstatements of Operational Risk capital requirements. Providing a comprehensive list of expense categories to be captured in the NIC calculations would be consistent with the Agencies' stated objective of reducing variability arising from inconsistent accounting classifications and would align the treatment of noninterest expenses with the degree of specificity already provided for other BI inputs. For reported categories that include both "financial" and "nonfinancial" amounts, the final rule could require banking organizations to adopt and implement policies and procedures to accurately identify expense items against principles-based criteria.

Appendix 4: Market Risk / CVA

Final rules should include transition arrangements that avoid risk management and capital management disruptions for firms seeking approvals to implement modeled approaches

The Basel III Proposal creates clear risk management and capital management incentives for firms with diversified trading businesses to seek internal model approvals to the maximum extent practicable. Streamlined and refined PLAT standards governing internal models' qualification provide greater planning certainty and operational efficiencies. Introduction of a bifurcated Type A/Type B distinction for NMRFs, with related improvements in the internally modeled capital calculation and stressed expected shortfall ("SES") elements, significantly improve the risk sensitivity of the standards.¹ Improvements in the utility and accuracy of modeled calculation standards must also be considered in contrast to the proposed Market Risk standardized measure, which provides no inter-asset class diversification recognition and, as such, may not be suitable for Market Risk management at banking organizations with large, diversified trading businesses. The apparent advantages of the modeled measure underscore the need for clarity in the process for achieving the full suite of model approvals by the implementation date.

The comment deadline for the Basel III Proposal is less than nineteen months from the potential implementation date of January 1, 2028. Even assuming adoption of final standards before year-end 2026, the window is short for multiple firms to seek model approvals across numerous trading desks engaged in a wide range of markets. The final rule should include either of the two transition arrangements outlined below to support an orderly adoption of Market Risk and CVA internal models.

First, Market Risk and CVA standards could be applied on a delayed basis notwithstanding implementation of revised Credit Risk and Operational Risk standards on January 1, 2028. Delaying the implementation date of revised Market Risk and CVA standards until July 1, 2029, would permit near-term implementation of revised Credit Risk and Operational Risk standards without the need for an interim model approval process for Market Risk and CVA models. Instead, Market Risk and CVA standards could apply with full force on July 1, 2029, with firms operating under legacy Market Risk standards in 2028 and early 2029.

There is a clear advantage to near-term adoption of final rules, bringing to closure the multidecade process of revising regulatory capital standards, but those final rules could impose distinct implementation dates for different components of the framework. Precedents for this approach exist in both the United States and other major jurisdictions. The Agencies adopted final rules in 2012 to update Market Risk standards, with revised standards implemented on a distinct date from other updates to the regulatory capital framework.² Similarly, the EU implemented Credit Risk and Operational Risk standards of the revised Basel Accord in 2025, with revised Market Risk standards expected to take effect by 2027.³ There is no inherent dependency of the Credit Risk and Operational Risk frameworks on the

¹ 91 Fed. Reg. at 15,051-53.

² 77 Fed. Reg. 53,060 (Aug. 30, 2012).

³ Regulation (EU) 2024/1623 (CRR III) amending Regulation (EU) No 575/2013, as amended by Delegated Regulation (EU) 2024/2795 and Delegated Regulation (EU) 2025/1496.

Market Risk and CVA frameworks; they could be implemented on a schedule that reflects their relative difficulty and the degree of supervisory resources required.⁴

Adoption of final rules imposing these staggered implementation dates would provide firms with planning certainty to finalize multiyear updates to production systems and reporting processes. An implementation date of mid-2029 for Market Risk and CVA standards should also permit sufficient time to complete supervisory examinations and reviews without requiring interim or partial supervisory approvals during the initial go-live period.

The proposed three-year delay before full effectiveness of PLAT standards could also be reconciled with a July 1, 2029 implementation date for Market Risk and CVA standards. The PLAT monitoring period could begin in 2028, when Credit Risk and Operational Risk standards are implemented, providing banks with incentives to make expeditious progress in Market Risk model implementation before application of PLAT three years later. This would avoid extending the PLAT monitoring period until mid-2032, which might otherwise arise if the three-year monitoring period only started in mid-2029, and instead permit full application of all Market Risk requirements by 2031. Application of full Market Risk and CVA requirements by July 1, 2029, would also provide an eighteen-month window to generate PLAT data after implementation before the January 1, 2031 date for full application of PLAT standards.

Second, Market Risk and CVA standards could be applied on the same implementation date as revised Credit Risk and Operational Risk standards but with accommodations for firms to receive interim period model approvals for eighteen months pending completion of full model reviews by supervisors. Under this approach, the final rule would confirm that supervisory approvals for models can be based, at least for an eighteen-month interim period, on submission of complete model documentation supported by completed internal governance processes, including second-line review. The rule would also confirm that interim period model approvals do not require a full suite of backtesting data for each trading desk, only a reasonable expectation (supported by documented internal governance) that trading desks will generate adequate backtesting data to validate models before expiry of the interim period.

⁴ It would be more challenging to apply revised Market Risk and CVA standards on different dates. The Basel III Proposal appears to acknowledge this fact by organizing the proposed regulatory text for these standards into a single subpart separate from Credit Risk and Operational Risk standards. See 91 Fed. Reg. at 15,198 (proposed Subpart F regulatory text).

If the Agencies adopted an interim period model approval approach, model approval standards should be based on the following principles.

Scope	• Applicable for Market Risk modeled approaches • Applicable for SA-CVA • Applicable for SA Alternative sensitivities (if supervisory approval is required)
Timeline	• Interim period standards would apply for eighteen months from the implementation date (e.g., from January 1, 2028, to June 30, 2029, assuming January 1, 2028 implementation)
Supervisory Waiver	• Supervisors would provide waivers permitting firms to use internal models for the interim period, subject to meeting interim period conditions • For each trading desk requesting a waiver, interim period conditions would include: (a) Submission of a complete model document package (b) Evidence of Model Risk Management (MRM) internal model review outcomes • Interim period supervisory waivers would focus on the appropriateness of the model for use, drawing on experience and precedents from prior regulatory capital transition arrangements involving models
Full Supervisory Approvals	• The objective of the interim period is to facilitate an orderly transition to approval of internal models. • As such, it is expected that most trading desks will complete full supervisory reviews and approvals of internal models before completion of the eighteen-month period.

The final rule should codify, in regulatory text, clear model approval standards

Proposed Market Risk standards contemplate that a supervisor must approve each internal model before its use by a trading desk to calculate Market Risk RWAs.⁵ Supervisory approval is subject to the trading desk complying with one of four potential model qualification approaches.⁶ We support the flexibility contemplated by the proposal but recommend that the Agencies consider expanding and clarifying these model approval standards in the final rule.

⁵ 91 Fed. Reg. at 15,240 (Proposed Rule Section 212(b)(2)(i)).

⁶ 91 Fed. Reg. at 15,240 (Proposed Rule Section 212(b)(2)(ii)).

Under proposed standards, trading desk approvals would be conditioned on a firm demonstrating that its trading desk complies with one of the four model qualification approaches as well as with additional criteria, including expected shortfall and SES model standards and separate requirements for demonstrating initial validation of models.⁷ The interplay of these approval requirements is not entirely clear, as they rely in some cases on cross-references or vague language. For example, model validation standards, which apply “initially and on an ongoing basis,” include a requirement for “an outcomes analysis process that includes backtesting and PLA testing at the trading desk level.”⁸ But with the three-year delay in application of PLAT, it is unclear what outcomes analysis is required “initially” as part of model validation. More generally, the distribution of model approval standards across multiple subsections could be simplified by organizing all criteria in a single list codified in one section of the rules.

Proposed regulatory text would also need to be amended to accommodate an interim model approval process. The four Market Risk model qualification approaches would likely need to be revised to add a fifth approach governing interim period-specific model qualification standards. This newly added fifth approach would also need to incorporate clear cross-references to the specific technical criteria codified elsewhere in the rule that apply specifically to interim period model approvals as opposed to model approvals more generally.⁹ Unclear or ambiguous interim period model qualification standards will impede efficient implementation and require supervisory dialogue to confirm the exact list of applicable technical standards, frustrating the objective of achieving expeditious implementation.

Revised and expanded regulatory text should also clearly state that supervisors will provide timely interim period model approvals when firms submit a complete record that complies with specific technical requirements clearly articulated in the final rule. Firms should have confidence that all relevant model approval criteria will be codified in the final rule and supervisors will provide interim period model approvals where firms have submitted complete records that meet all applicable model approval criteria.

Final rules should accommodate a clear and orderly process for obtaining model approvals at regulated subsidiaries regardless of holding company-level Volcker desk structures

The Basel III Proposal acknowledges an interplay between Volcker Rule trading desk structures and Market Risk trading desk structures.¹⁰ Bank subsidiaries subject to the Basel III Proposal will be required to obtain supervisory approvals before implementing the modeled approach. The scope of trading desks at a bank subsidiary is not, however, necessarily aligned with parent-company level Volcker desks, which may span multiple legal entities. As applied to bank subsidiaries, the final rule should permit the use of entity-specific trading desks that form part of a larger holding company-level Volcker desk.

In practice, holding companies’ and bank subsidiaries’ modeled approach applications will be closely coordinated and supported by similar data but the scope and details of the latter’s applications

⁷ 91 Fed. Reg. at 15,240-41 (Proposed Rule Sections 212(b)(2)(ii), (c)(1), (d)(3)).

⁸ 91 Fed. Reg. at 15,241 (Proposed Rule Section 212(d)(3)(iv)).

⁹ In practice, the Agencies could implement this recommendation by adding a new subsection (E) to Proposed Rule Section 212(b)(2)(ii).

¹⁰ 91 Fed. Reg. at 15,030 n. 301.

may be narrower in some cases; for example, regulated subsidiaries should not be required to produce entity-specific submissions covering Sections 202-203 of the proposed rules. Flexibility provided to bank subsidiaries' modeled approach applications will also be relevant for other regulated subsidiaries directly or indirectly subject to the revised Market Risk standards, including nonbank Swap Dealers which are subject to Commodity Futures Trading Commission-imposed capital rules that incorporate by reference the Board's RWA standards.¹¹

Default Risk Capital requirements should be revised as applied to exposures associated with non-U.S. sovereigns

The Basel III Proposal would apply DRC requirements to non-U.S. sovereign exposures.¹² While we appreciate that sovereign exposures have varying risk profiles, we believe the DRC as applied in this manner is overly severe and is not harmonized with related Credit Risk standards applicable to banking book positions.

Exposures to non-U.S. sovereigns denominated in the sovereign's local currency should be subject to no DRC if the sovereign receives a country risk classification ("CRC") of 0 or 1. The Basel III Proposal, following current standards, applies a risk weight of 0 percent to non-U.S. sovereigns with a CRC of 0 or 1.¹³ In other words, a banking organization could apply a 0 percent risk weight to a sovereign exposure if held in the banking book but a non-zero DRC would apply if the same exposure were instead held in the trading book. There is no clear reason for this distinction; sovereign default risks are the same in both cases.

Exposures to non-U.S. sovereigns denominated in the sovereign's currency should be subject to no DRC to the extent a banking organization has corresponding liabilities. Similarly, the Basel III Proposal, consistent with existing U.S. regulatory capital standards, applies a 0 percent credit risk weight to non-U.S. sovereign exposures to the extent the banking organization has an equivalent amount of liabilities in that currency and the resulting risk weight is not lower than the risk weight applied by the home country supervisor to a bank's exposure to the sovereign.¹⁴ Market Risk standards should incorporate an equivalent mechanic to ensure harmonization in treatment. The economic rationale for this treatment is well-established. As a practical matter, a sovereign issuing debt in its own currency retains the ability to devalue its currency to meet sovereign debt obligations (resulting in inflation and corresponding decline in the real value of the bank organization's local currency liability, effectively neutralizing the net default risk exposure).¹⁵ This approach would also align with the DRC treatment

¹¹ 17 C.F.R. §§ 23.100, 23.101(a)(1)(i)(B).

¹² 91 Fed. Reg. at 15,237 (Proposed Rule Section 210, Table 1).

¹³ 91 Fed. Reg. at 15,158 (Proposed Rule Section 111, Table 1); see also 12 C.F.R. § 3.32(a)(3) (OCC); 12 C.F.R. § 217.32(a)(3) (Board); 12 C.F.R. § 324.32(a)(3) (FDIC).

¹⁴ 91 Fed. Reg. at 15,158 (Proposed Rule Section 111(a)(3)).

¹⁵ We also observe that the Agencies' regulatory liquidity standards recognize bonds issued by non-zero percent risk weight sovereigns as high quality liquid assets "where the sovereign entity issues the security in its own currency, the security is liquid and readily-marketable, and the [banking organization] holds the security in order to meet its net cash outflows in the jurisdiction of the sovereign entity." 12 C.F.R. § 50.20(a)(6) (OCC); 12 C.F.R. § 249.20(a)(6) (Board); 12 C.F.R. § 329.20(a)(6) (FDIC). While liquidity recognition for such bonds is not conditioned on matching local currency liabilities, the logic in both cases is grounded in the fact that "a sovereign

applied to foreign sovereign bonds in the Market Risk frameworks of the European Union and United Kingdom.¹⁶

In the alternative, the Agencies could also choose to limit the 0 percent DRC risk weight to circumstances in which a banking organization pledges non-U.S. sovereign bonds in a bankruptcy remote manner to a QCCP in the same non-U.S. jurisdiction in connection with cleared transaction margin requirements. In this situation, the pledged bonds (asset) may be funded by a local currency-denominated repurchase agreement (liability), with the bonds held in a bankruptcy remote manner from the QCCP. The inapplicability of the DRC to the non-U.S. sovereign bonds could be conditioned, in addition to the matching liability requirement, on the pledged collateral meeting central counterparty bankruptcy remoteness standards generally applicable in the cleared transaction framework.¹⁷

The final rule should clarify or revise certain technical standards that impact Market Risk and CVA calculations and support banking organizations' risk management

Market Risk RWAs calculated under the models-based measure should be capped at standardized measure RWAs without requiring supervisory approval	• The proposal would permit a banking organization to request that models-based measure RWAs be capped at standardized measure RWAs • Imposing a supervisory approval requirement adds unnecessary complexity and delay • Application of an automatic cap could be subject to a requirement for a banking organization to escalate and explain to its supervisor any circumstances in which models-based measure RWAs exceed standardized measure RWAs
Firms should be permitted to perform redesignation add-on calculations at the position level, not portfolio level	• Basel III Proposal would apply redesignation standards at a portfolio level when individual positions move between the banking book and the trading book • Firms should be permitted to calculate redesignation charges by comparing changes in position-level RWAs without running portfolio-level impacts • Position-level RWAs are simpler and would avoid any resultant reduction in market risk capital requirements • FRTB-SA should be used to assess the add-on for all desks to reduce operational complexity

often is able to meet obligations in its own currency through control of its monetary system, even during fiscal challenges.” 79 Fed. Reg. 61,440, 61,457 (Oct. 10, 2014).

¹⁶ Capital Requirements Regulation (CRR) (Regulation (EU) 575/2013) Article 325y(2), cross-referencing CRR Article 114(7) (EU); Market Risk: Advanced Standardised Approach (CRR) Article 325y(2), cross-referencing UK CRR Article 114(7) (UK).

¹⁷ 91 Fed. Reg. at 15,176 (Proposed Rule Section 116(c)(4)(i)).

The regulatory boundary condition for ES reduced set should be simplified to a ratio-based measure	• The Basel III Proposal currently defines the ES reduced set boundary condition using a variance-explained formulation over a 60-day window, which is complex, non-intuitive and operationally burdensome to validate • Firms should be permitted to use a simpler and more transparent metric defined as the 60-day average of the ratio of current period reduced set ES to full set ES. • This formulation is aligned with the Basel framework approach, thereby promoting consistency¹⁸ • This approach maintains the existing 75 percent threshold and observation window while improving consistency, transparency and operational efficiency
Equity derivative-to-equity derivative hedging practices should receive the same DRC treatment as cash equity securities-to-equity derivative hedges	• The proposal includes specific mechanics to address the DRC treatment of equity exposures, which have perpetual maturity and therefore give rise to maturity matching questions with hedges • The proposed mechanics permit hedging between cash equity positions and related equity derivative positions as well as between certain derivative positions that can be delivered into a derivative contract in fulfillment of the contract¹⁹ • This proposed treatment should be expanded to include any equity derivative that hedges any other equity derivative • Recognition of equity derivative-to-equity derivative hedging practices would align with EU and UK implementation of Market Risk standards, each of which permits assignment of three-month maturities to equity derivatives for DRC purposes²⁰
The DRC hedge benefit ratio (“HBR”) should be revised to better capture the correlation benefits of a diversified portfolio	• As proposed, the HBR would not fully capture economic hedges between single-name issuer positions and index hedges • The denominator in the HBR formula should be the square root of the sum of a) square of the sum of longs and b) square of the sum of shorts • In addition, the proposed HBR formula would not distinguish hedge effectiveness based on issuers’ credit quality • The HBR formula should further be revised to incorporate, for each non-securitization DRC bucket, three sub-buckets based on credit quality (IG, speculative grade and sub-speculative grade)

¹⁸ See Basel Committee on Banking Supervision, “Calculation of RWA for market risk; Internal models approach: capital requirements calculation” (effective as of Jan. 1, 2023) ([link](#)).

¹⁹ 91 Fed. Reg. at 15,235 (Proposed Rule Section 210(a)(2)(iii)(A)).

²⁰ Article 495q of EU CRR; Article 325x(4) of UK CRR.

Regulatory text should be clarified to confirm that term repos remain subject to the same calculation standards as exist under legacy rules	• Differences in drafting language between the Basel III Proposal rule text and preamble have led to confusion about the intended treatment of the term repo election • Regulatory text should be clarified to align with statements in the preamble that the proposal intends to permit ongoing use of the current standards²¹ • Specifically, for term RSTs subject to the election, interest rate risk charges should apply to the funding leg without separate application of the DRC to off-balance sheet securities collateral • Application of the DRC charge more broadly would inaccurately capture risk and render the term repo election largely unworkable
Firms should be permitted to calculate alternative sensitivities in the standardized measure without first obtaining supervisory approvals ²²	• The Basel III Proposal contemplates that a firm can, with prior supervisory approval, use an alternative basis for calculating delta sensitivities, vega sensitivities, and curvature scenarios²³ • The prior supervisory approval requirement should be eliminated in the final rule; firms' second-line reviews should be sufficient • Regulatory standards are sufficiently rigorous, as proposed, to limit the use of alternative calculations to defined circumstances without requiring ex ante supervisory approvals
CVA standards should confirm that "look through" treatment applies to SPVs' holdings	• Banking organizations may face special purpose vehicles ("SPVs") as counterparties in derivative transactions • In so-called repack structures, the SPV acquires bonds to collateralize notes paid to SPV investors, with the derivative contract hedging a related risk • In economic substance, the banking organization's CVA risk in this fact pattern is to the bond issuer, not the SPV

²¹ 91 Fed. Reg. at 15,076 (Question 180).

²² To the extent this recommendation is not accepted, we separately recommend that the Agencies include a process for granting interim period approvals for alternative sensitivities.

²³ 91 Fed. Reg. at 15,214-15 (Proposed Rule Section 207(a)(4)).