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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

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To the Board of Governors of the Federal Reserve System:

I appreciate the opportunity to comment on the Board's proposal to revise the GSIB surcharge framework and the Systemic Risk Report, R-1889.

I do not object to the Board's stated objective of improving systemic-risk measurement. The proposal identifies real problems: fixed method 2 coefficients may drift out of alignment over time; point-in-time reporting can encourage year-end balance-sheet management; the short-term wholesale funding measure may be distorted by its risk-weighted-assets denominator; and score-band cliff effects can reduce sensitivity to changes in a firm's risk profile.

My concern is that the proposal makes several consequential changes at once and produces a material reduction in GSIB surcharges without enough public-facing support to let commenters fully test whether the chosen package and calibration are correct.

The Board estimates that the proposal would reduce GSIB surcharges by about 40 basis points on average and by 10 percent in aggregate. That may be justified if current method 2 scores overstate systemic risk. But because some quantitative estimates rely on supervisory information and special data collections not fully available to the public, commenters cannot fully reproduce the Board's key estimates.

Before finalizing the rule, the Board should provide public summary tables, anonymized workpapers, or equivalent materials sufficient to show which proposal elements drive the estimated reduction in method 2 scores and surcharges. The final rule should separately identify the effects of the one-time coefficient adjustment, short-term wholesale funding redesign, narrower score bands, averaging requirements, and indicator-definition changes.

The Board should also better justify the one-time 1.2 downward adjustment. The observed divergence between method 1 and method 2 scores supports considering an adjustment, but it does not by itself establish that 1.2 is the correct magnitude. The final rule should provide sensitivity analysis showing the effects of smaller and larger adjustments and explain why the chosen factor is superior to nearby alternatives. It should also address whether any post-2019 increase in method 2 scores reflects actual growth in systemic risk rather than measurement drift.

The Board should distinguish measurement improvement from capital reduction. A measurement-improvement rule should show that lower surcharges are the consequence of better risk measurement, not merely the policy objective. Because the proposal acknowledges that lower capital buffers could reduce resilience and systemic stability, the final rule should more directly quantify that tradeoff and explain how the Board will detect and correct overcalibration.

The Board should more fully analyze narrower or phased alternatives, including phased recalibration, adopting averaging before the full coefficient reduction, using a smaller initial adjustment with later review, retaining current score bands while recalibrating coefficients, or testing alternative short-term wholesale funding weights around the proposed 20 percent target. These alternatives would help determine whether the proposal improves measurement without unnecessarily reducing resilience.

The averaging requirements are directionally sensible, but the final rule should provide indicator-by-indicator operational support for the chosen daily or monthly frequencies. For each affected indicator, the Board should explain why the chosen frequency is appropriate, what existing systems support it, what validation and audit processes firms would need, and how material intra-year transactions would be handled.

The short-term wholesale funding change also needs clearer support. The Board should explain why 20 percent remains the right target today, why December 2024 is the right calibration point, and how outcomes change under alternative weights or calibration periods. Because short-term wholesale funding was central to the 2007–09 financial crisis, the target should be tied to current evidence about systemic transmission risk, not only to the original design.

Finally, if the Board finalizes a rule that materially reduces GSIB surcharge requirements, it should commit to a post-implementation review after the first full reporting cycle under the revised FR Y-15. That review should assess whether averaging reduced year-end management, whether surcharge reductions matched expectations, whether incentives changed, and whether further recalibration is needed.

The Board has identified genuine measurement issues and provided substantial analysis. But the public record should match the consequence surface of the rule. A rule that materially lowers capital surcharges for global systemically important banks should be publicly reproducible to the greatest extent possible before it is finalized.

Respectfully submitted.