

INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC., SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION, AND INSTITUTE OF INTERNATIONAL FINANCE

Proposal and Comment Information

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Subject

Docket No. R-1889, RIN 7100-AH22

Submitter Information

Organization Name: International Swaps and Derivatives Association, Inc., Securities Industry and Financial Markets Association, and Institute of International Finance

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Attached is the joint comment letter from the International Swaps and Derivatives Association, Inc., the Securities Industry and Financial Markets Association and the Institute of International Finance on the Federal Reserve Board's proposal, Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15).

Thank you,

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June 18, 2026

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

Re: Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)

Docket No. R-1889, RIN 7100-AH22

Dear Secretary McDonough,

The International Swaps and Derivatives Association, Inc. (“ISDA”), the Securities Industry and Financial Markets Association (“SIFMA”) and the Institute of International Finance (“IIF” and, together with ISDA and SIFMA, the “Associations”) welcome the opportunity to comment on the proposal referenced above (the “**2026 GSIB Proposal**”) issued by the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”).¹

Executive Summary

The Associations appreciate the Federal Reserve’s intent to align the capital surcharge for U.S. global systemically important bank holding companies (the “**GSIB Surcharge**”) with underlying risks and to update and recalibrate the GSIB Surcharge to reflect changes in the U.S. economy. The 2026 GSIB Proposal represents an improvement relative to the 2023 proposal to update the GSIB Surcharge (the “**2023 GSIB Proposal**”).² In particular, the Associations appreciate that the 2026 GSIB Proposal would not include client-cleared derivatives under the agency model in the complexity and interconnectedness categories of the GSIB Surcharge as proposed in the 2023 GSIB Proposal, which would have increased capital requirements for GSIBs as a result of providing clearing services and departed from longstanding public policy objectives.³ The Federal Reserve should promptly issue a final rule to update the GSIB Surcharge, taking into consideration the recommendations provided below.

¹ Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 91 Fed. Reg. 14,908 (Mar. 27, 2026).

² Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 88 Fed. Reg. 60,385 (Sept. 1, 2023).

³ Letter from ISDA, SIFMA, *Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)* (Jan. 16, 2024),

This letter addresses only issues under the 2026 GSIB Proposal that are most directly relevant to derivatives.⁴ In that regard, the Associations offer the following specific recommendations to better refine the GSIB Surcharge consistent with underlying risks:

1. The Federal Reserve should reconsider its proposed approach to the treatment of derivatives exposures in the cross-jurisdictional activity indicator.
2. Averaging of notional amounts of OTC derivatives should be calculated using monthly values (and not more frequently than monthly), rather than daily values, to better reflect typical portfolio compression and risk-mitigation practices and to avoid overstating notional amounts due to transient build-ups between compression cycles.
3. Cross-jurisdictional activity claims and liabilities should be reported as the average of quarter-end values.
4. Further consideration will be required to evaluate potential changes to the size and interconnectedness indicators in respect of cross-product netting.
5. The proposed interconnectedness indicator appropriately would not include the SA-CCR alpha factor.

I. The Federal Reserve should reconsider its proposed approach to the treatment of derivatives exposures in the cross-jurisdictional activity indicator.

A. The cross-jurisdictional activity indicator should not include derivatives exposures.

The 2026 GSIB Proposal would revise the systemic indicators for cross-jurisdictional claims and cross-jurisdictional liabilities to include derivatives exposures.⁵ On this

available at <https://www.isda.org/a/cElgE/ISDA-and-SIFMA-Response-to-G-SIB-Surcharge-Framework-Consultation.pdf> (the “2024 ISDA/SIFMA Letter”).

⁴ Our members have participated in and broadly support the recommendations provided in the comment letter on the 2026 GSIB Proposal submitted by the Financial Services Forum and the Bank Policy Institute and the Futures Industry Association.

⁵ 91 Fed. Reg. at 14,927. Question 31: What are the advantages and disadvantages of modifying the scope of the cross-jurisdictional claims and cross-jurisdictional liabilities indicators to include derivative exposures? Question 32: What are the advantages and disadvantages of modifying the scope of the cross-jurisdictional activity risk-based indicator in the Board’s framework for determining the applicable category of prudential standards for large banking organizations to include derivative exposures? What adjustments, if any, should the Board consider to the reporting of a firm’s cross-jurisdictional derivative exposures, including by type of firm, and why would such adjustments more appropriately capture cross-jurisdictional activity? Please provide data or relevant information. Question 33: What other modifications, if any, would improve measurement of the cross-jurisdictional activity indicators?

point, the Federal Reserve observed that “[o]mission of derivatives from the systemic indicators for cross-jurisdictional activity can materially understate this measure for a banking organization, and also present opportunities for a banking organization to use derivatives to structure its exposures in a manner that reduces the value of its systemic indicators without reducing the risks the indicator is intended to measure.”⁶

Including derivatives exposures in the cross-jurisdictional activity indicator would be duplicative of other systemic indicators that already capture a banking organization’s derivatives exposures. In particular, the GSIB Surcharge includes derivatives exposures in the size, interconnectedness and complexity indicators.⁷ Further, a banking organization’s derivatives exposures are subject to capital requirements under the current exposure methodology (“CEM”) or standardized approach for counterparty credit risk (“SA-CCR”) and, as applicable, market risk, credit valuation adjustment (“CVA”) risk and the stress capital buffer.

More broadly, including derivatives within the cross-jurisdictional activity indicator could increase the costs of entering into derivatives for hedging purposes, such as for commercial end-users. Capturing derivatives exposures in the cross-jurisdictional activity could also lead to reduced cross-border hedging activities or to firms shifting activity to less efficient structures that fragment markets. Additionally, because derivatives exposure is highly sensitive to market conditions (including foreign exchange and interest rate movements), including derivatives exposures within the cross-jurisdictional activity indicator could lead to variations in the GSIB Surcharge indicators that are disconnected to business model or systemic footprint.

Accordingly, derivatives exposures should not be included in the cross-jurisdictional activity indicator.

B. To the extent that derivatives exposures are included in the cross-jurisdictional activity indicator, exposures should be determined net of collateral and centrally cleared derivatives should be excluded.

If derivatives exposures are included in the cross-jurisdictional activity indicator, banking organizations should be permitted to calculate derivatives exposures for purposes of cross-jurisdictional claims and cross-jurisdictional liabilities net of collateral, as determined consistent with U.S. GAAP and the FFIEC 009 instructions. Including derivatives exposures on a gross basis would not appropriately reflect the risk mitigation effects of collateral and would significantly overstate banking organizations’ cross-jurisdictional activity. Because variation margin can be viewed as a form of settlement of the claim or liability, reporting an exposure gross of variation margin would not accurately reflect cross-jurisdictional exposures. The Associations recognize that the cross-jurisdictional activity indicator includes risk shifting concepts such that, for derivative claims, cash collateral is reported based on the country in

⁶ 91 Fed. Reg. at 14,927.

⁷ See 2024 ISDA/SIFMA Letter at p. 12.

which the cash collateral is held and that securities collateral is reported based on the country of the issuer of the securities. However, risk shifting would not sufficiently cover the full effects of collateralization, in particular as it relates to derivative liabilities where risk shifting would not apply.

Additionally, to the extent that derivatives exposures are included in the cross-jurisdictional activity systemic indicator notwithstanding the recommendation in Section I.A, there should be an exclusion for centrally-cleared derivatives. Although client-facing exposures would be appropriately excluded,⁸ including centrally cleared derivatives within the cross-jurisdictional activity indicator would be contrary to longstanding policy objectives to promote central clearing.⁹ Overstating a banking organization's exposures through including central-clearing activities also could discourage clearing and increase systemic risk through greater concentration. At a minimum, centrally-cleared derivatives, if included at all in the cross-jurisdictional activity indicator, should be reflected net of collateral consistent with the discussion above.

II. Averaging of notional amounts of OTC derivatives should be calculated using monthly values (and not more frequently than monthly), rather than daily values, to better reflect typical portfolio compression and risk-mitigation practices and to avoid overstating notional amounts due to transient build-ups between compression cycles.

The 2026 GSIB Proposal would require banking organizations to report the notional amount of OTC derivatives as the average of daily values over the reporting quarter.¹⁰ Computing notional amounts for OTC derivatives based on the average daily values over a reporting quarter would substantially overstate a banking organization's OTC derivatives portfolio and would not appropriately represent a firm's systemic risk profile.

⁸ Given that exposures reported on the FFIEC 009 relate to on-balance sheet exposures, client-facing exposures are implicitly excluded.

⁹ See, e.g., Remarks by Jerome H. Powell, Member, Board of Governors of the Federal Reserve System at The Federal Reserve Bank of Chicago Symposium on Central Clearing (June 23, 2017), available at <https://www.federalreserve.gov/newsevents/speech/files/powell20170623a.pdf>.

¹⁰ 91 Fed. Reg. at 14,919 (Table 1). Question 14: For each systemic indicator, what alternative frequency of data to be averaged should the Board consider, and why? For example, what would be the advantages and disadvantages of using averages of daily, weekly, or monthly values instead? Question 15: For each systemic indicator, what additional operational burdens would be required to report according to the proposed averaging frequency, relative to what banking organizations already do to track this information? To what extent would the operational burdens of reporting averages of daily, weekly, monthly, or quarterly values differ for the different indicators? What other changes, if any, could reduce the additional costs of reporting average values for a particular indicator? Please provide relevant data or analysis, including specific information regarding the operational burden of different frequencies for any indicator.

In general, a banking organization may enter into OTC derivative transactions that increase its overall notional amount of OTC derivatives but that mitigate specified risks, including basis risk and counterparty credit risk. Banking organizations also may conduct compression of OTC derivatives transactions, which ultimately reduce the firm's notional amount of OTC derivatives. Compression cycles generally are not conducted on a daily basis. For example, more liquid products may be subject to compression cycles on a weekly basis, whereas other products with lower levels of liquidity are compressed less frequently. For these reasons, liquidity is concentrated around certain dates under current market practices such that OTC derivatives exposure generally increases leading to those dates before transactions are compressed or the exposure otherwise rolls off. The calculated notional amount would appear inflated when determined on a daily (or even weekly) basis as a result of current market structure and practices, rather than “window dressing.”

Because banking organizations generally do not perform basis risk mitigation, counterparty credit risk mitigation, and compression all on the same day, a requirement to determine the notional amount of OTC derivatives as the average of daily values over a quarter could significantly overstate a banking organization's OTC derivatives portfolio on a notional basis—and therefore its systemic risk—in practice. To the extent that OTC derivatives are required to be reported based on average daily values, the cost of using derivatives could increase for the derivatives markets more generally, including for banking organizations and their counterparties and clients. A banking organization may decide to decrease its use of OTC derivatives to mitigate basis risk, counterparty credit risk and other types of risks, a presumably unintended result that would be inconsistent with interagency guidance regarding prudent counterparty credit risk management practices more generally.¹¹ Daily averaging also would penalize firms for facilitating liquidity and hedging because a daily construct would capture transient flows that trade towards concentration points of liquidity that support effective market functioning. Portfolios require time to develop natural risk offsets, such that a daily construct would overstate overall risk exposure.

A requirement to report the notional amount of OTC derivatives based on a daily average also would create significant operational challenges given market practices for portfolio rebalancing and portfolio compression. Because OTC derivatives portfolios are frequently adjusted through portfolio rebalancing and compression activity, it would not be practicable for banking organizations to maintain on a daily basis fully validated and reconciled reporting processes that satisfy internal governance processes for OTC derivatives notional amounts.

Accordingly, the averaging of notional amounts of OTC derivatives should be calculated using monthly values (and not more frequently than monthly), rather than daily values.

¹¹ Interagency Supervisory Guidance on Counterparty Credit Risk Management (June 29, 2011), *available at* <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20110705a1.pdf>.

III. Cross-jurisdictional activity claims and liabilities should be reported as the average of quarter-end values.

The 2026 GSIB Proposal would require banking organizations to report cross-jurisdictional claims and liabilities as the average of month-end values over the reporting quarter.¹²

While month-end averaging would represent an improvement over the daily averaging proposed under the 2023 GSIB Proposal, reporting cross-jurisdictional claims and cross-jurisdictional liabilities based on month-end averages would still result in significant challenges and operational burdens. Notably, the FR Y-15 cross-references inputs that are populated from the FFIEC 009 form, which banking organizations report on a quarterly basis. The lack of alignment between the current quarterly reporting on the FFIEC 009 and a proposed month-end reporting cadence for the cross-jurisdictional activity calculations for purposes of preparing the FR Y-15 would result in substantial operational complexities.

Relatedly, a requirement for a banking organization to generate cross-jurisdictional claims and cross-jurisdictional liabilities on a monthly basis for the FR Y-15 would raise significant operational challenges and impose unnecessary costs given that firms generally have not implemented systems and related governance processes to produce and report these figures monthly.

Additionally, to promote international consistency, the Federal Reserve should not incorporate adjustments to averaging in a manner that would affect Method 1 of the GSIB Surcharge prior to the Basel Committee adopting changes to averaging methodologies. This includes the reporting of both cross-jurisdictional activity claims and liabilities and the reporting of notional amounts of OTC derivatives, described in [Section II](#). In this regard, the 2026 GSIB Proposal referenced that Method 1 “is structured to be generally consistent with the methodology used by other major jurisdictions to calculate GSIB surcharges and with the GSIB surcharge standard published by the Basel Committee.”¹³

Accordingly, cross-jurisdictional activity claims and liabilities should be reported as the average of quarter-end values.

IV. Further consideration will be required to evaluate potential changes to the size and interconnectedness indicators in respect of cross-product netting.

Question 24 of the 2026 GSIB Proposal requests comment on whether the Federal Reserve should permit recognition of offsetting across different product types, such as certain

¹² 91 Fed. Reg. at 14,919 (Table 1).

¹³ 91 Fed. Reg. at 14,922.

derivatives and repo-style transactions, in the interconnectedness and size indicators or any other systemic indicators.¹⁴

As referenced in the 2026 GSIB Proposal, the size indicator “generally aligns with the total leverage exposure calculation” that is used in the context of the supplementary leverage ratio (the “SLR”).¹⁵ On-balance sheet exposure for purposes of the SLR generally aligns with accounting principles and including stringent requirements for collateral netting. Cross-product netting would not apply to the on-balance sheet component of the SLR absent changes in accounting rules. Additionally, with respect to off-balance sheet exposures, the exposure at default calculation for repo-style transactions and the potential future exposure (“PFE”) component for bilateral or cleared derivative transactions is different under the SLR relative to the calculation of risk-weighted assets (“RWA”) for regulatory capital purposes. Applying cross-product netting could lead to higher exposures under the SLR and the GSIB Surcharge size indicator, which would not be a sensible outcome.

However, the U.S. Treasury clearing mandate will have profound effects and its implications may not be clear yet, which may require future evaluation regarding the extent to which further changes to the SLR and GSIB surcharge may be required.

V. The proposed interconnectedness indicator appropriately would not include the SA-CCR alpha factor.

The 2026 GSIB Proposal would update the interconnectedness indicator to provide that a banking organization should report the exposure amount of its derivatives in accordance with the capital rule.¹⁶ For these purposes, a banking organization that uses SA-CCR would not include the SA-CCR alpha factor when calculating intra-financial system assets and intra-financial system liabilities.

The Associations support omitting the SA-CCR alpha factor from the interconnectedness indicator. The alpha factor is designed to be “a measure of conservatism that is designed to address risks that are not directly captured under SA-CCR, and to ensure that the capital requirement for a derivative contract under SA-CCR is generally not lower than the one

¹⁴ 91 Fed. Reg. at 14,925. Question 24: *Currently, firms are unable to recognize netting of exposures across derivatives and securities financing transactions contained within the same legal netting set for the purposes of certain systemic indicators in their GSIB surcharge score calculations. The capital proposals include changes to the ability of firms subject to SA-CCR to recognize under the capital rule offsetting of certain exposures across different product types (for example, certain derivatives and repo-style transactions). What changes, if any, should the Board make to the FR Y-15 to permit recognition of such offsetting in the interconnectedness and size indicators or any other systemic indicators? What would be the advantages and disadvantages of such changes?*

¹⁵ 91 Fed. Reg. at 14,929-30.

¹⁶ 91 Fed. Reg. at 14,925.

produced under [the internal models methodology].”¹⁷ In contrast, the interconnectedness indicator generally is designed to measure the extent of a banking organization’s interconnectedness with other financial institutions.¹⁸ In each case, the risks that the SA-CCR alpha factor is intended to capture and the comparability of the SA-CCR capital requirement to the internal models methodology are not relevant to the purpose of the interconnectedness indicators. Including the alpha factor for purposes of the interconnectedness indicators, accordingly, would overstate the extent of a banking organization’s transactions with other financial institutions and result in distortions of the GSIB surcharge framework.

Conclusion

The Associations appreciate the opportunity to submit our comments on the 2026 GSIB Proposal. We are strongly committed to maintaining the safety and efficiency of U.S. financial markets and hope the Federal Reserve implements our recommendations, which reflect the extensive knowledge and experience of market professionals within the Associations and our members. Our recommendations are designed to make the U.S. capital framework more risk-sensitive in support of financial markets, consumers, end users, and the economy more generally. Please contact Ulrich Karl at ukarl@isda.org or +44 (0)20 3808 9720, Guowei Zhang at gzhang@sifma.org or (202) 962-7340 and Andres Portilla at aportilla@iif.com or (202) 378-6796 if you wish to discuss the points raised in this letter further.

Very truly yours,

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¹⁷ 85 Fed. Reg. at 4,366.

¹⁸ 80 Fed. Reg. at 49,095.

About the Associations

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [LinkedIn](#) and [YouTube](#).

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

The Institute of International Finance (IIF) is the global association of the financial industry, with about 400 members from more than 60 countries. The IIF provides its members with innovative research, unparalleled global advocacy, and access to leading industry events that leverage its influential network. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, professional services firms, exchanges, sovereign wealth funds, hedge funds, central banks and development banks.