

INTERNATIONAL CAPITAL MARKET ASSOCIATION, ET. AL., BRYAN PASCOE, ET. AL.

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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VIA ELECTRONIC SUBMISSION

Re: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets (FRB Docket No. R-1888, RIN 7100-AH21; FDIC RIN 3064-AG23; OCC Docket ID OCC-2026-0034, RIN 1557-AF49); Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations (FRB Docket No. R-1887, RIN 7100-AH20; FDIC RIN 3064-AF29; OCC Docket ID OCC-2026-0265, RIN 1557-AF52); and Proposed Capital Surcharges for Global Systemically Important Banks; Systemic Risk Report (FR Y-15) (FRB Docket No. R-1836, RIN 7100-AH22)

Joint Response regarding Cross Product Netting and the Prudential treatment of Security Pledge structures:

Dear Sir/Madam,

The International Capital Market Association (“**ICMA**”) and the International Securities Lending Association (“**ISLA**”), (together the “**Associations**”) welcome the opportunity to submit this joint comment letter to the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”), the Federal Deposit Insurance Corporation (the “**FDIC**”) and the Office of the Comptroller of the Currency (the “**OCC**” and, collectively, the “**Agencies**”). This letter addresses the Agencies’ Notices of Proposed Rulemaking (**NPRs**) revising the risk-based capital rules under the Basel III Endgame framework (the “**Proposals**”).

The Associations represent a broad, global network of financial institutions, encompassing large buy-side asset managers, pension funds, sovereign wealth funds, and major sell-side intermediaries, including global custody banks and broker-dealers. Our members participate extensively in the securities finance markets, utilizing Securities Financing Transactions (**SFTs**),

specifically repurchase transactions (**repos**) and securities borrowing and lending (**SBL**) to facilitate liquidity in the secondary market.

The primary objective of this joint submission is to offer a targeted response to **Question 24 of the G-SIB Surcharge NPR** concerning cross-product netting.¹ We request that the Agencies explicitly recognize modular, cross-product netting architectures under the **Form FR Y-15** systemic risk report, utilizing the existing industry established **Cross-Product Master Agreement (“CPMA”)** to bridge product-specific master documentation, including the **Global Master Securities Lending Agreement (“GMSLA”)** and the **Global Master Repurchase Agreement (“GMRA”)** and the **ISDA Master Agreement** into a single legal netting set.

Furthermore, uniquely on behalf of ISLA and its membership, this letter advances an essential distinction regarding the prudential treatment of bankruptcy-remote pledge models for U.S. banking institutions under the GMSLA Security Interest over Collateral 2018 Documentation suite, commonly referred to as the **ISLA Pledge GMSLA**.

The Associations note that the term ‘SFTs’ and ‘Securities Financing Transactions’ as utilized throughout this submission, are structurally and operationally synonymous with the catch all term ‘repo-style transactions’ as defined within the Agencies’ current regulatory capital framework (12 CFR § __G.2)², expressly encompassing repurchase agreements, reverse repurchase agreements, securities lending and securities borrowing transactions that meet the requisite mark to mark and margining criteria.

About the Associations:

The International Capital Market Association (ICMA) is a not-for-profit membership association promoting well-functioning cross-border capital markets. ICMA has offices in Zurich, London, Paris, Brussels and Hong Kong, serving around 640 member firms in 71 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets.

¹ 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?

² See 12 CFR § __.2 (defining a "repo-style transaction" as a transaction in which a banking organization has a legally enforceable netting agreement providing for the right to terminate, liquidate, or set off collateral promptly upon a counterparty's event of default, explicitly encompassing repurchase agreements, reverse repurchase agreements, securities lending, and securities borrowing transactions that meet requisite marking-to-market and margining criteria). Text available at the [Electronic Code of Federal Regulations](#).

ICMA plays a leading role in supporting efficient and resilient global repo and collateral markets. It sponsors the Global Master Repurchase Agreement (GMRA), the standard legal framework for cross-border repo transactions, and, through its European Repo and Collateral Council (ERCC) and Global Repo and Collateral Forum (GRCF), works closely with market participants to promote well-functioning securities finance markets.

The International Securities Lending Association is the leading trade association for the securities financing industry. ISLA's 280+ global members based in 35 jurisdictions, include beneficial owners, institutional investors, asset managers, custodial banks, lending agents, prime brokers, fintechs and service providers, spanning the breadth of the securities financing ecosystem, covering activities such as securities lending, borrowing, financing, collateral management and related digital transformation.

Our role in today's evolving financing ecosystem is to ensure the market, legal, regulatory and operational foundations are aligned to stakeholder expectations, to support growth that is credible, transparent and resilient. ISLA works with its members, global regulators and policy-makers, to drive clarity, certainty and best practice. Across regions, infrastructures and asset classes, the system is evolving beyond its traditional boundaries. ISLA helps members shape that evolution in a manner that is practical, coordinated and fit-for-purpose.

ISLA has supported the industry for 30+ years and more recently in 2024, **established its affiliate, ISLA Americas**. Working in collaboration with our global network of partners and peer associations, we provide a global advocacy voice for the international securities finance market, ensuring that members operating across borders benefit from a cohesive, unified approach to market evolution and regulatory change.

The Associations continuously obtain annually, support and maintain, legal netting opinions across 71 jurisdictions for the GMSLA and 75 jurisdictions for the GMRA.

The Systemic Importance of Securities Financing Transactions to Capital Markets:

SFTs serve as the foundational layer of the global financial system. Repos and SBL transactions are high-volume, low-margin transactions that act as vital mechanics for macro-prudential liquidity and the transmission of monetary policy. **The efficient functioning of these markets is inextricably linked to the broader health, resilience, and competitiveness of the global financial ecosystem.**

The critical functions of these financing markets include:

- **Core liquidity and funding tool:** Repo is a low-risk, collateralised instrument that serves as a fundamental tool for liquidity management across a wide range of market participants, including banks, dealers, central banks and asset managers, supporting day-to-day cash management and market liquidity.
- **The Funding Mechanism for Sovereign Debt:** In particular, repos represent the primary mechanism through which primary dealers and market-makers finance inventories of government bonds, including U.S. Treasuries. A liquid repo market ensures deep,

continuous secondary market capacity, thereby supporting orderly market-making activities and lowering debt-issuance costs for sovereigns.

- **Collateral Transformation and Liquidity Coverage Ratio Compliance:** Securities lending serves as the operational mechanism for collateral transformation. It allows banking institutions to convert (for the duration of the transaction) lower-grade assets into High-Quality Liquid Assets (HQLA), which directly supports compliance with regulatory requirements regarding banking organizations' ability to monetize liquid asset pools over 30-day (Liquidity Coverage Ratio) and shorter stress horizons.³
- **Systemic Maturity Matching and Net Stable Funding Ratio:** Term repos and term SBL transactions allow financial institutions to secure stable funding profiles. This directly facilitates compliance with the Net Stable Funding Ratio, mitigating the accumulation of structural maturity mismatches within the banking sector.

Cross Product Netting

Under Question 24 of the G-SIB NPR, the Board has requested comment on whether it should modify the Instructions for the Form Y-15 ("Systemic Risk Report") to permit banking organizations to recognise the offsetting and netting exposures across derivatives and SFTs contained within the same legal netting set for the purposes of systemic indicator calculations.

The Associations broadly support recognizing the risk-reducing benefits of qualifying cross-product master netting agreements within the U.S. regulatory capital framework, which permit banking organizations to terminate and close out a counterparty's open positions and determine a singular, net amount owed to or from the counterparty upon the occurrence of an event of default. Banking organizations, supported by the ongoing advocacy of global industry trade bodies, continuously obtain robust, qualified legal opinions regarding the enforceability of exercising these contractual close-out and liquidation rights, including within the specific context of counterparty insolvency proceedings.

To support effective implementation, the final framework should explicitly confirm that a single legally enforceable Netting Set can be successfully recognized when established through an overarching cross-product netting framework, such as the Cross-Product Master Agreement, that bridges distinctly separate but product-specific master agreements (including the GMRA, GMSLA & ISDA), into a unified structure.

Alignment with the Capital Rules

The Agencies' own regulatory text within the proposed Standardized Approach NPR and re-proposed Expanded Risk-Based Approach NPR explicitly contemplate and authorize a modular, multi-agreement netting structure for repo-style transactions and cross-product netting sets

³ See, e.g., 12 CFR 51.22(a), 12 CFR 249.22(a); 12 CFR 380.22(a) ("The [banking organization] must demonstrate the operational capability to monetize the HQLA....")

thereof. It defines a Qualifying Cross-Product Master Netting Agreement (“**QCPMNA**”) as follows:

“Qualifying cross-product master netting agreement means a qualifying master netting agreement that provides for termination and close-out netting across multiple types of financial transactions or qualifying master netting agreements in the event of a counterparty’s default...”

This definition is identical to the one currently used for Advanced Approaches banks, in applying the Internal Models Methodology (IMM) to cross-product netting sets⁴, and **we commend the Agencies for recognizing the risk-mitigating benefits of cross-product netting more broadly across the proposed Standardized Approach and Expanded Risk-Based Approach.**

The clause “across multiple... qualifying master netting agreements,” within the Agencies’ regulatory text aligns with the operational architecture of the CPMA model. The CPMA operates as a legally binding contract connecting multiple master agreements (sometimes described as a master agreement for master agreements). It establishes a single legal relationship across separate, product-specific master agreements, including the GMSLA, the GMRA, the MRA, the MSLA and the ISDA Master Agreement, without extinguishing or consolidating their distinct contractual identities.

Upon a counterparty insolvency event (or other relevant default), the CPMA operates so that each relevant master agreement will independently conduct a close-out of the transactions thereunder with the close-out calculations of each underlying master agreement applying in the ordinary manner. The resulting independent termination amounts are then aggregated and set off at the overarching framework level, replacing the multiple obligations with a single, net close-out payment due to or from the defaulting counterparty.

To provide the necessary macroprudential and legal foundation for this framework, as described above, **the Associations procure and maintain annually updated, comprehensive legal netting opinions for the GMSLA and the GMRA. These industry-standard opinions validate the absolute enforceability of close-out netting under native SFT documentation.**

The global securities financing marketplace operates under distinct, highly specialized master documentation designed around jurisdictional boundaries:

- The vast majority of domestic U.S. securities lending and repurchase transactions are executed under the Master Securities Lending Agreement (“**MSLA**”) and the Master Repurchase Agreement (“**MRA**”), both maintained by the Securities Industry and Financial Markets Association (“**SIFMA**”). SIFMA obtains legal opinions addressing netting and enforceability under U.S. Law.
- Conversely, cross-border and international transactions are **overwhelmingly executed under the Global Master Securities Lending Agreement and the Global Master Repurchase Agreement maintained by ISLA and ICMA respectively. To this end, ISLA**

⁴ See 12 CFR __.132(a)(3) (“To estimate EAD for qualifying cross-product master netting agreements, a [banking organization] may only use the internal models methodology in [paragraph \(d\)](#) of this section.”)

and ICMA obtain legal opinions addressing netting and enforceability under the laws of over 70 jurisdictions.

For the avoidance of doubt, while this submission focuses on the intersection of the primary global standards, the GMSLA, GMRA, and ISDA Master Agreement, to address the explicit scope of Question 24, the final capital regulatory framework should recognize that the CPMA's capacity to establish a singular, legally enforceable netting set extends to any other qualifying bilateral master agreement designated by the contracting counterparties within the CPMA schedules including, without limitation, the SIFMA domestic frameworks, amongst others.

Operational Efficiency of the CPMA

The associations note that recognizing cross-product netting through a CPMA framework best preserves the distinct operational and accounting logic required for SFTs:

- SFTs are title-transfer or security-interest transactions involving the continuous physical movement of liquid securities, demanding precise contractual provisions governing intraday rights of substitution, collateral recalls, and manufactured payments. These infrastructure-heavy lifecycle parameters are governed natively by the GMSLA, GMRA, MSLA and MRA, which are integrated into global market infrastructure and are essential for well-functioning, efficient markets. The CPMA's modular structure is particularly attractive because it sits above, and works alongside, these well-established industry-standard agreements, enabling cross-product netting benefits without requiring market participants to alter existing operational processes, documentation architecture, or legal risk management practices. **Maintaining these separate, specialized agreements ensures operational continuity, minimises implementation and legal risk, while safely interfacing with broader cross-product capital frameworks.**
- Under standard insolvency and bankruptcy regimes (including the U.S. bankruptcy code and Title II of the Dodd-frank act), a modular netting framework maintains clean contractual boundaries up until a definitive close-out event occurs. This architecture ensures that a localized valuation or operational dispute within an OTC derivatives portfolio **does not inadvertently disrupt or lock in place the HQLA collateral supporting an institution's daily overnight funding operations.**
- Under prevailing U.S. GAAP (specifically ASC 210-20)⁵ and IFRS (IAS 32)⁶ balance-sheet metrics, derivatives and SFTs are subject to separate, distinct netting and offsetting

⁵ Under U.S. law, the Financial Accounting Standards Board (FASB) codifies the baseline conditions required to offset assets and liabilities. **The Rule:** Specifically, **Subtopic 210-20 (Offsetting)** mandates that a clean, four-part criteria must be explicitly met for balance-sheet netting to occur (including counterparty intent to settle net). It specifically targets derivatives and repo-style portfolios through disclosure updates like ASU 2013-01.

⁶ For entities subject to International Financial Reporting Standards, the International Accounting Standards Board (IASB) establishes significantly more restrictive netting logic. **The Rule:** Under **IAS 32, Paragraph 42 (Offsetting a financial asset and a financial liability)**, an institution is strictly prohibited

criteria based on their unique economic substance. Because financial accounting standards evaluate these asset classes independently, utilizing a modular documentation framework, backed by a CPMA bridge, ensures that an institution's legal netting sets remain perfectly and naturally aligned with these mandatory financial accounting presentation constraints while also providing an ability to set-off the close-out payments for different netting sets as needed.

Macroprudential Advantages of Modular Netting Under a CPMA - Form FR Y-15

Modifying the FR Y-15 instructions to recognize cross-product netting via a QCPMNA (such as the CPMA bridging the GMSLA, GMRA, MSLA, MRA and ISDA master agreement, amongst others) ensures that a banking organization's systemic footprint indicators accurately mirror its true net economic credit exposure. This eliminates the artificial inflation of a firm's interconnectedness and size metrics, preserving vital liquidity capacity in the interbank market during periods of acute financial stress.

As a unique feature of the SFT market, institutional asset distribution relies extensively on the Agency Lender model and specialized pooled principal annexes built natively into the GMSLA and GMRA. A flexible, modular recognition framework under Form FR Y-15 is critical to safeguarding the structural realities of the buy-side. **These well-established fiduciary agency relationships, representing the vast majority of existing SFT activity, cannot be easily replicated by documenting repos and SBLs under alternative documentation.** Restricting FR Y-15 recognition to structures that lack the SFT agency and pooled principal provisions (which cannot be easily introduced into other documentation because of the nature of the agency documentation structures) would inadvertently disconnect buy-side capital from the market, draining liquidity from secondary markets and further reducing liquidity during any period of stress.

Joint Associations Recommendation

The Associations respectfully recommend that the Agencies amend the final rule text and the Form FR Y-15 systemic indicator instructions to explicitly clarify that a "qualifying cross-product master netting agreement" and its resulting single "netting set" can be validly established through an overarching netting framework, such as the CPMA, that legally binds separate qualifying master netting agreements (e.g., GMSLA, GMRA, MSLA, MRA and ISDA master agreement).

The final rule should confirm that multiple underlying contracts, when integrated via a legally enforceable cross-product netting bridge providing for net close-out across all transactions in an insolvency scenario, collectively satisfy the definition of a single "agreement" and qualify for risk-sensitive capital and systemic indicator treatment. **ICMA and ISLA do not believe that**

from presenting positions on a net basis unless they currently have a legally enforceable right to set off the recognized amounts *and* fully intend to settle on a net basis or realize the asset and settle the liability simultaneously.

additional operational requirements are necessary where a CPMA links underlying qualifying master netting agreements and is supported by robust legal enforceability opinions. The agencies should explicitly confirm that such structures satisfy the definition of a QCPMNA.

Principle-Based Exemption for Bankruptcy-Remote Security Pledge Models:

While ICMA and ISLA jointly endorse the cross-product netting recommendations above, ISLA independently submits this recommendation regarding the definition of exposure values within the revised Collateral Haircut Approach (CHA) and the Exposure minus Collateral (E-C) add-on of the Supplementary Leverage Ratio.

Financial markets are undergoing a profound structural evolution towards bankruptcy-remote arrangements for exchanging collateral. In the United States, regulations have introduced margin requirements for uncleared swaps for swap dealers and major swap participants. These regulations allow or require initial margin for uncleared swaps to be held with an independent third-party custodian, segregating the collateral from the swap dealer's other assets. The custodian must be legally unaffiliated with both counterparties, and the custodial agreement must strictly prohibit the rehypothecation, repledging, or reuse of the collateral. As a result of that arrangement, the collateral is bankruptcy remote in the event of the default or insolvency of either the counterparty or the custodian. Such collateral is not recognised as an exposure for a banking organization.

International securities lending markets are also evolving in a similar way, to adopt a model based on Security Interest over Collateral. Under ISLA's Pledge GMSLA documentation, a banking organization borrows securities from a lender and, rather than transferring the legal title of the collateral, it pledges collateral to the lender in a strictly bankruptcy-remote manner, via an account held with a triparty custodian.

Pursuant to these contractually binding arrangements:

1. The securities lender is expressly prohibited from rehypothecating or utilizing the collateral.
2. The collateral is held in a segregated account insulated from the insolvency of either of the secured party (the lender) or the applicable custodian.

The collateral should not be absorbed into the insolvency estate of the lender or the borrower. This bankruptcy-remote arrangement means that no value would be lost by the borrower in the event of default of the lender, and the borrower would not be required to take steps to recover the value of their collateral, either through an insolvency process or through liquidation of securities to which they hold title. The borrower would be able to take control of the collateral after the lender's default and return the borrowed securities.

This arrangement for securities borrowing arrives at the same result as segregated collateral for uncleared swap transactions; that is, there is no current or potential exposure for the banking organization acting as the borrower.

Through avoiding the borrower incurring an exposure to the lender, this arrangement avoids a banking organization taking counterparty risk when borrowing securities, and also reduces the interconnection between counterparties in the financial system.

ISLA Recommendation:

To recognize the bankruptcy remote arrangement and the elimination of the exposure to the counterparty under this arrangement, ISLA recommends that the Agencies insert an explicit, principle-based carve-out to exclude both legs of a repo style transaction under such an arrangement from the revised Collateral Haircut Approach, and from the Exposure minus Collateral add-on of the Supplementary Leverage Ratio, provided that:

- (i) the collateral is transferred (or otherwise provided) pursuant to a non-rehypotheatable, security interest structure;
- (ii) the assets are held in a segregated, triparty custodian account; and
- (iii) the arrangement is legally documented and supported by a legal counsel opinion, confirming that the arrangement is bankruptcy-remote from both the secured party's and the custodian's estate under applicable insolvency law.

Summary of Recommendations:

1. **Recognition of Modular Netting (Joint ICMA & ISLA):** Amend the final rule text and the Form FR Y-15 systemic indicator instructions to explicitly clarify that a Qualifying Cross-Product Master Netting Agreement (QCPMNA) and a single Netting Set may be validly established by utilizing an overarching framework such as the industry established CPMA that is used today across the market.
2. **Exemption for Bankruptcy-Remote Pledges (Advanced by ISLA):** Explicitly incorporate a principle-based carve-out under the revised Collateral Haircut Approach and the E-C add-on of the Supplementary Leverage Ratio confirming that when collateral to a repo-style transaction is posted in a segregated, non-rehypotheatable, bankruptcy-remote manner, both legs of the transaction shall be excluded from the calculation.



The Associations thank the Agencies for their consideration of these critical adjustments, and remain committed to collaborating with policymakers to ensure a secure, capital-efficient, and highly liquid financial marketplace.

Yours Faithfully

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