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Proposal and Comment Information

Title: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies (Reg O and Y), R-1896

Comment ID: FR-2026-0028-01-C26

Submitter Information

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Submitted Date: 10/05/2026

I am writing to raise two related concerns regarding the proposed treatment of large asset-management fund complexes and their portfolio companies under Regulation O.

I understand the practical difficulty created when passive fund ownership causes large numbers of portfolio companies to become related interests of a bank's principal shareholder. However, I am concerned that resolving that difficulty by removing these relationships from Regulation O may also remove a structural safeguard without adequately considering the concentration and interconnectedness that caused the relationships to be captured in the first place.

Large asset managers can hold significant positions simultaneously in banking organizations and in companies borrowing from those organizations. Even where those investments are characterized as passive, the resulting network of common ownership remains economically relevant. Excluding qualifying relationships from Regulation O therefore raises an important question: what controls will ensure that extensions of credit remain demonstrably arm's-length and that common ownership does not create preferential terms, conflicts of interest, or concentrations of interconnected exposure that are difficult to identify at the individual-transaction level?

I also encourage the Board to consider this issue in the context of banks' increasing use of artificial intelligence and other automated analytical systems in credit, portfolio, liquidity, concentration, and counterparty-risk management.

An automated system can perform exactly as designed and still fail to identify a material risk if the relationships necessary to recognize that risk are absent from its underlying data architecture. If common-ownership relationships that historically triggered Regulation O treatment cease to be identified or maintained as relevant risk attributes, automated systems may evaluate individual exposures accurately while failing to recognize concentration, dependency, or correlated risk across the broader network.

This creates a potential interaction between regulatory relief and technological change that deserves consideration before the existing safeguard is removed. The relevant question is not simply whether passive ownership should automatically trigger Regulation O. It is also what compensating controls, data requirements, monitoring, and governance should preserve visibility into these relationships once Regulation O no longer does so.

I respectfully encourage the Board to evaluate whether the final rule should require institutions relying upon the proposed exclusion to maintain sufficient common-ownership data, monitoring, and governance to identify preferential lending, concentration risk, and interconnected exposures—including where automated or AI-enabled systems are used in those assessments.

Thank you for considering these comments.