

**Meeting Between Vice Chair for Supervision Bowman and Staff of the Federal Reserve
Board and Representatives of the International Swaps and Derivatives Association
August 3, 2026**

Participants: Vice Chair for Supervision Michelle W. Bowman, Francisco Covas, and Greg Frischmann (Federal Reserve Board)

Scott O'Malia, Lisa Galletta, and Amy Hong (International Swaps and Derivatives Association)

Summary: Vice Chair for Supervision Bowman and staff of the Federal Reserve Board met with representatives of the International Swaps and Derivatives Association (ISDA). The ISDA representatives made several recommendations related to the agencies' Basel III notice of proposed rulemaking, including the need for a workable transition period, the importance of recognizing cross-product netting, improving the calibration of the standardized default risk charge, and credit valuation adjustments for regulated financial counterparties.

Attachment

Basel III Endgame – Trading Book Summary – Key Issues



June 16, 2026

US Basel III Proposal- Key Issues for Trading Book

The Basel III proposal is a constructive step but the QIS shows it materially overstates risk in several areas. The final rule should better align capital with economic risk and reduce unnecessary operational burden.

Key Recommendations

1. Make the IMA transition workable

Without pragmatic implementation timelines and model approvals, firms face cliff-edge capital shocks due to the more conservative standardized approach and discourage internal models deployment for optimal portion of the portfolio.

2. Fix cross-product netting in SA-CCR

The Basel III Proposal for maturity-mismatch scaling does not provide a genuine hedge benefit and ignores short-dated repo netting. A **Hedge Coverage Ratio** would align with economic risk while retaining conservatism.

3. Properly Calibrate Standardized Default Risk Charge (SA-DRC)

With no internal models for DRC, miscalibration of SA-DRC has significant impact on capital. Targeted fixes for equity hedges, non-US sovereigns, fund risk weights and changes to the Hedge Benefit Ratio would align capital with economic risk.

4. Make CVA risk-sensitive for Regulated Financials

Distinguish CVA risk weights between **regulated** and **unregulated** financial counterparties. The current proposal lumps them together, overstating risk for regulated financials.

Extended SA-CCR – Cross Product Netting Solution

Cross-Product Netting Fix: Why It Matters

Recognizing **hedges between SFTs and derivatives** aligns required capital with the risk firms actually run — without reducing prudential standards, and restores comparability with EU and UK treatment.

01 THE ISSUE

Hedges are not recognized

In the current SA-CCR proposal, capital is calculated as if the SFT and the derivative that offsets it were unrelated positions.

02 A LEVEL PLAYING FIELD

The U.S. has removed IMM

The U.S. Proposal eliminates the Internal Models Method, while the EU and UK retain it — and with it, cross-product netting. HCR restores comparable recognition within the Standardized Approach for U.S. banks.

03 THE FIX

Count only the unhedged risk

Give credit for the offset, so only the residual, genuinely open exposure attracts capital.

04 THE OUTCOME

Risk-sensitive yet prudent

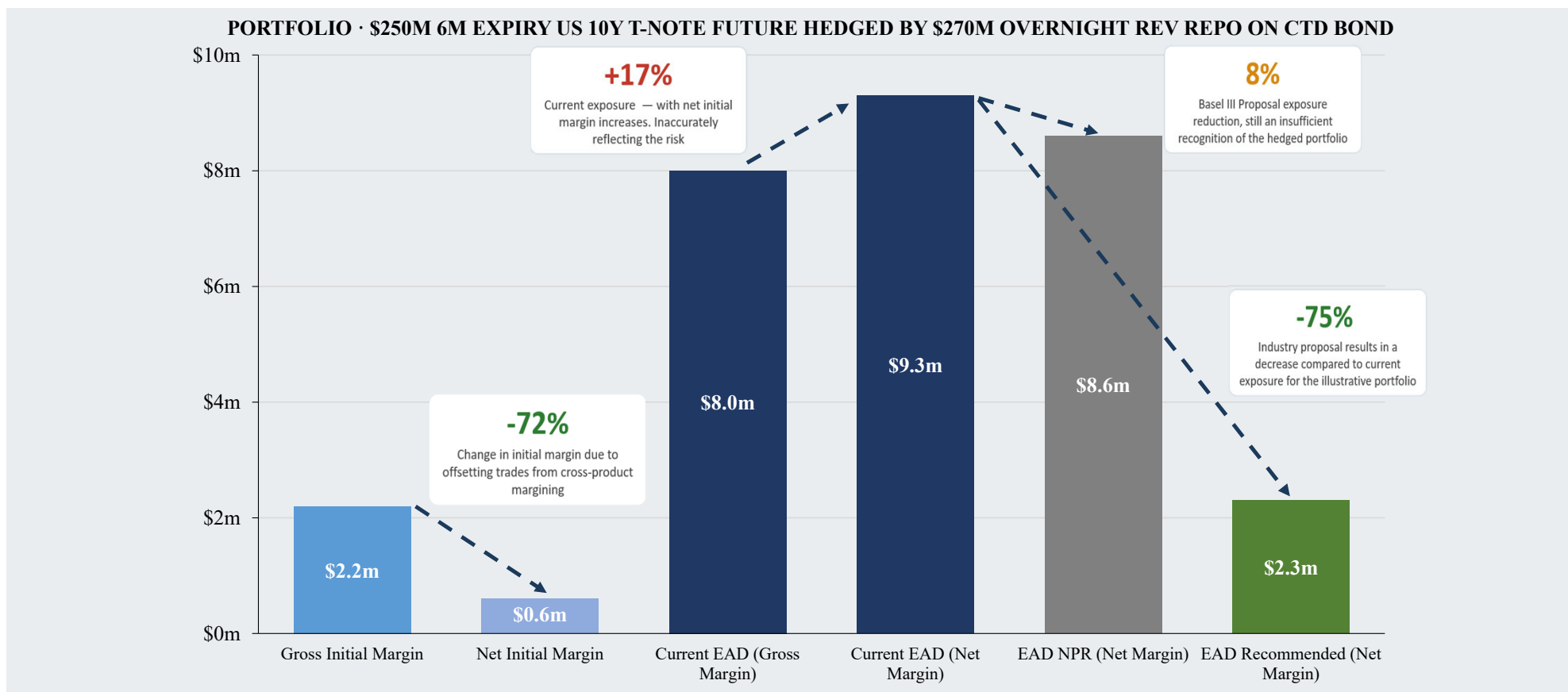
Capital falls as hedging rises but remains above the Internal Model Method for equivalent portfolios.

WHY THE FIX IS NEEDED

- **It works within the existing framework.** The change improves the risk sensitivity of SA-CCR rather than rewriting the standard.
- **Cross-margining lowers system risk and total margin.** Offsetting exposures across products reduces both system-wide risk and aggregate margin requirements — behavior the framework should incentivize, not penalize.
- **On a well-hedged book, most of the exposure is covered.** Capital should reflect that, not treat offsetting positions as if they were unrelated.
- **Risk that genuinely is not hedged stays fully capitalized.** Credit is given only for the portion that is demonstrably covered.
- **The measure moves with the hedge instead of ignoring it.** Capital then responds to how the book is actually managed, so prudent hedging is recognized rather than penalized.

Cross Product Netting: The Issue with the Basel III Proposal

The NPR final-exposure formula counts 100% of SFT exposure, so exposure rises as hedging rises, i.e. capital can increase even as risk is reduced.



Why It Matters: Scale, the Clearing Mandate & the Cost of Treasury Liquidity

The U.S. Treasury market is the world's largest and most systemic. The **Treasury clearing mandate** will pull far more SFT and derivative volume into scope — and without netting relief, that cost lands directly on liquidity.

THE MARKET

\$28.8 tn

U.S. Treasuries outstanding — projected to roughly double to ~\$56tn (120% of GDP) by 2036 on CBO estimates.



THE MARGIN

+\$58.4 bn

New initial margin locked up once cash (Dec 2026) and repo (Jun 2027) clearing goes live — DTCC survey of 83 dealers, incl. all major primary dealers.



THE OUTCOME

46% gross

Cannot be offset absent cross-product netting — so the cost stays and intermediation erodes.

BY THE NUMBERS • THE U.S. TREASURY & FINANCING MARKETS

\$84.5 bn

Projected peak daily liquidity need — sizing FICC's contingency facility at ~\$110bn (DTCC survey)

\$4.4 tn / day

UST repo, avg daily amount outstanding, primary dealers (SIFMA) — distinct from cash trading (>\$1tn/day)

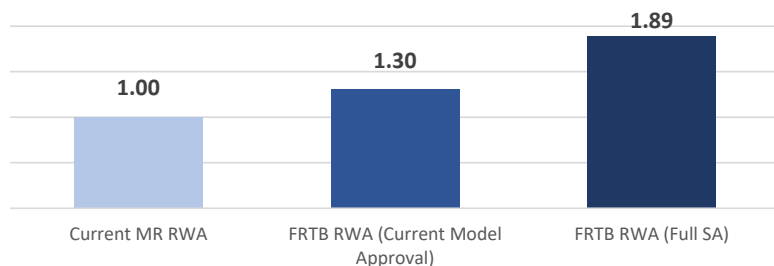
+249%

Growth in sponsored cleared repo since May 2023; sponsored share of cleared repo up from 22% to 38% (ISDA-Actrix)

Appendix

QIS Results Overview – FRTB and CVA

FRTB Impact

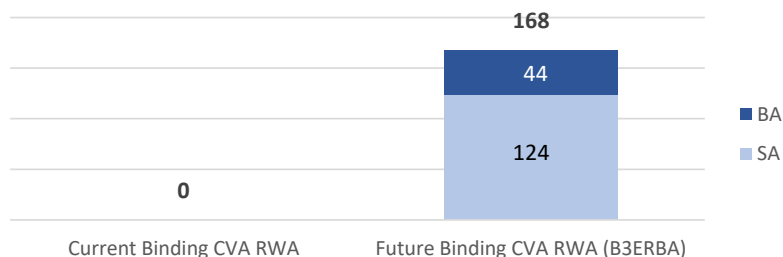


Moving to FRTB results in a **30% - 89% (\$134 Bn - \$392 Bn)** increase in RWAs. The lower bound of 30% assumes current model approvals.

FRTB Recommendations

- We recommend improving the **DRC treatment** of sovereigns, equity derivatives, funds, and the underlying aggregation formula, in addition to our recommendations on **non-modellable risk factors** and SBM diversification.
- Combined, the above changes would result in a **capital neutral impact** under the scenario where internal models are applied to modeled desks and standardized approach to non-modeled desks.
- **Provide an 18-month transition for FRTB-IMA from the effective date:** internal governance approval of trading desks and models, with ongoing backtesting should substitute for upfront supervisory approval.

CVA Impact

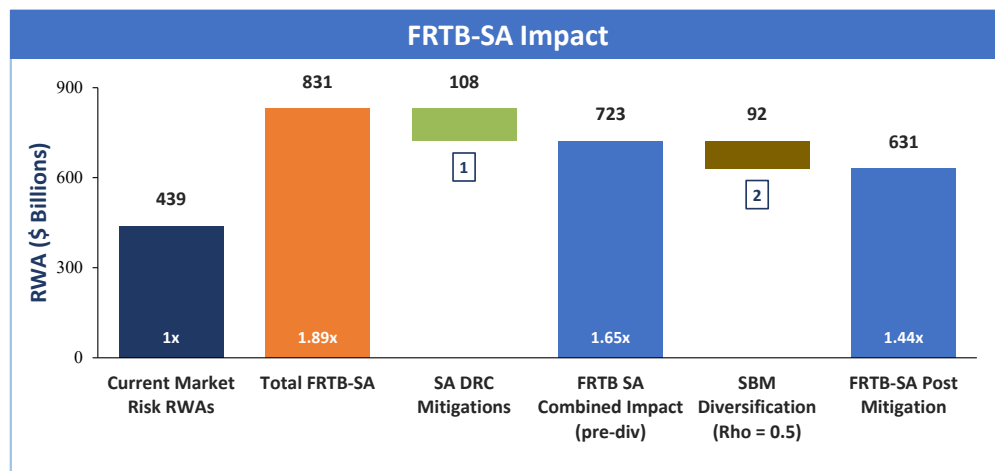


CVA is fully additive under ERBA which will become the binding constraint. We estimate this structural change to add **\$168 Bn of RWAs**.

CVA Recommendations

- We recommend improving risk sensitivity by adding more **granularity in the financial risk category**. This change would **reduce CVA impact by 14%**.
- This is particularly important for derivative end users, as the cost of derivatives may increase or some products become less readily available, which would affect end users' ability to hedge their business risks.

QIS Waterfall Impacts: FRTB-SA & FRTB-IMA

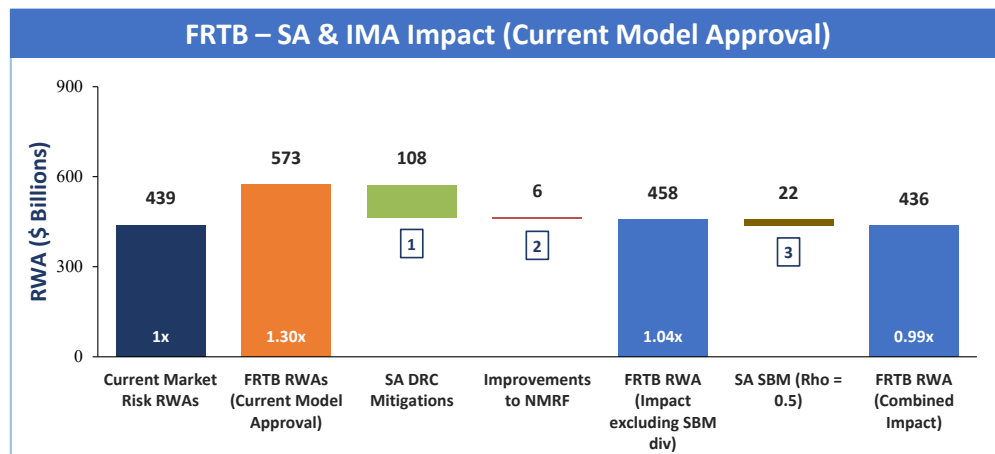


FRTB-SA Recommendations

FRTB-SA inflates market risk RWA to **\$831bn** — **1.9× today's \$439bn**. Mitigations below reduce impact by ~\$200bn to **\$631bn**.

Targeted mitigations materially reduce the FRTB-SA RWA impact

1. We recommend targeted changes to **SA DRC** across equity hedges, non-U.S. sovereigns, funds, and the hedge benefit ratio (HBR) formula, which results in **~\$108bn** of capital benefit.
2. We also recommend **recognizing SBM diversification**, which brings the overall impact down to **1.44×** current RWA.



FRTB-IMA Recommendations

Even with current model approvals, FRTB-IMA inflates market risk RWA to **\$573bn** — **1.3× today's \$439bn**. Mitigations below restore near parity at **\$436bn (0.99×)**.

Targeted mitigations restore the FRTB impact to being capital neutral

1. **SA DRC mitigations** for equity hedges, non-U.S. sovereigns, funds and the HBR (~\$108bn)
2. Improvements to **NMRF** (~\$6bn)
3. Recognition of **FRTB-SA diversification**

Cross-Product Netting: The Solution

A **Hedge Coverage Ratio (HCR)** — one added term in the formula — realigns final exposure with economic risk, so capital falls as hedging rises.

01 THE SOLUTION

Recognize the hedge (HCR)

Count only the unhedged residual of the SFT exposure.

02 THE FORMULA FIX

One added term

Weight the SFT exposure by **HCR** in the formula below.

03 THE OUTCOME

Risk-sensitive yet prudent

Exposure falls as hedging rises yet stays above the Internal Model Method for equivalent portfolios.

FINAL EXPOSURE AMOUNT — PROPOSED FORMULA

$$\text{Exposure Amount} = MR \times (\text{Extended SA-CCR}) + (1 - MR) \times (\text{Exposure Amount}_{\text{Derivatives}} + \text{Exposure Amount}_{\text{SFT}} \times \text{HCR})$$

HEDGE COVERAGE RATIO (HCR):

$$\text{HCR} = \text{MAX} \left(\frac{\text{MAX}(A_{\text{Extended-SA-CCR}}, A_{\text{SFT}}) - A_{\text{Derivatives}}}{A_{\text{SFT}}}, 0 \right) \text{ and } \text{HCR} = 0 \text{ when } A_{\text{SFT}} = 0$$

KEY TERM DEFINITIONS

FINAL-EXPOSURE FORMULA TERMS

Exposure Amount — final cross-product exposure (EAD).

MR — maturity-mismatch multiplier (roll-off risk).

Extended SA-CCR — SA-CCR exposure extended to include SFTs.

Exposure Amount (Derivatives) — SA-CCR derivative trades only.

Exposure Amount (SFT) — Collateral haircut exposure for SFTs.

HEDGE COVERAGE RATIO TERMS

HCR — residual share of SFT exposure not hedged by derivatives (0 = fully hedged, 1 = unhedged).

A_x — total SA-CCR add-on for all trades in set x (x = Extended SA-CCR, SFT, or Derivatives).