Meeting Between Staff of the Federal Reserve Board and Representatives of JPMorgan Chase & Co.
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Participants: Mark Van Der Weide, Jay Schwarz, and Mark Buresh (Federal Reserve Board)

Jeremy Barnum, Beth Cleland, and Albert Moffitt (JPMorgan Chase & Co.)

Summary: Staff of the Federal Reserve Board met with representatives of JPMorgan Chase & Co. (JPMorgan) regarding the Board's GSIB surcharge proposal (GSIB surcharge proposal) and the agencies' Basel III notice of proposed rulemaking (Basel III proposal). JPMorgan representatives discussed various elements of the Basel III proposal and the GSIB surcharge proposal, as reflected in the attachment.

Attachment

JPMorganChase

B3 / GSIB considerations

August 2026

Executive summary

- As we did in 2023, JPMC is taking a holistic approach in responding to the 2026 GSIB and Basel 3 (B3) Proposals, because they – along with many other components of the capital and broader prudential framework – are inextricably linked

- We recognize that the 2026 B3 Proposal is meaningfully less punitive relative to the 2023 Proposal
  - However, the combination of remaining gold-plating in Method 2 GSIB and the elimination of modelling for credit risk provides the banking agencies capacity to exercise additional discretion to further recalibrate and reduce standardized risk weights where empirically supported

- The 2026 GSIB Proposal's adjustments for historical and future economic growth are welcome and a step in the right direction
  - However, we have significant concerns with the proposed STWF policy change to remove RWA from the denominator
    - It reverses the Federal Reserve's clearly stated intention from the 2015 GSIB rules that two firms with the same amount of short-term wholesale funding should be required to hold the same dollar amount of additional capital
    - There was insufficient analytical support provided for this policy change
    - This change significantly penalizes the larger banks: ~$12B higher capital requirement based on 2024 year-end indicators and ~$21B based on 2025
    - We recommend the Federal Reserve retain the existing STWF framework, with RWA in the denominator

  - Additionally, other areas of the GSIB surcharge calibration that could be further enhanced include:
    - It is not clear the proposal's 20% adjustment for historical growth adequately accounts for the impact of U.S. economic growth and inflation, when compared to (i) the range of alternatives provided in the proposal which showed potential impact of growth ranging from 20-40%, and (ii) to the growth in U.S. nominal GDP since rule adoption which has been ~60%
    - Clarification is required to ensure there are no gaps from when the adjustments for historical growth end, and when the adjustments for future growth begin
    - We recommend delaying use of averaging in Method 1 surcharge for U.S. GSIBs until it is finalized and adopted by Basel

- We encourage a timely finalization of the GSIB and B3 Proposals and a coherent adoption timeline given the joint calibration

Summary of JPMC comment letter on GSIB and B3

The GSIB and Basel 3 (B3) Proposals made many steps in the right direction, including:

- Reduction in the significant gold-plating in credit risk RWA versus Basel that was included in the 2023 B3 proposal
- Partially addressing some of the inflationary impacts of historic economic growth on the Method 2 GSIB scores
- Automatic adjustments to the GSIB scores for future economic growth based on U.S. nominal GDP

However, a few areas of significant concern remain:

- **GSIB**: Method 2 scores remain inflated due to insufficient adjustment for historical economic growth; this is further compounded for U.S. money-center banks by the STWF methodology change
  - Historical adjustment for economic growth does not go all the way back to the inception of the GSIB rule and the measure used is inconsistent with the forward adjustment, which is based on U.S. nominal GDP
  - The STWF methodology change to remove RWA from the denominator creates significantly adverse outcomes and wide-ranging policy implications, as well as disparate impacts across GSIBs –the Fed did not provide a reasoned explanation for the change

- **B3**: The elimination of credit risk modelling introduces conservatism into the U.S. B3 framework which affords the agencies flexibility to make additional adjustments to B3 RWA to remove overlaps in the capital framework and improve the overall calibration
  - **Op Risk RWA**: Proposal creates a significant overlap with the SCB and exhibits properties of size-based penalty
    - Penalty arises when larger banks have a 50% Op Risk RWA increase (use of 18% coefficient vs.12%) solely because they have higher business volumes; this is particularly onerous for GSIBs whose capital stack requires them to hold higher capital already by virtue of being large
  - **Targeted Standalone RWA concerns**: There remain various areas where the proposed RWA should be improved to better align with actual risk
    - The practical ability to recognize collateral for term repo transactions should be retained
    - The revised definition of a "commitment" is practically unimplementable so the existing definition should be retained

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The STWF indicator is specific to the U.S. Method 2 GSIB surcharge and was calibrated to achieve a specific objective

- The STWF component is not a feature of the Basel GSIB framework, and was introduced by the Federal Reserve into the U.S. framework in the 2015 GSIB rules, replacing the substitutability category in Method 1, to capture a firm's reliance on short-term wholesale funding

- Unlike the other indicators adopted from the Basel framework which have a fixed weight, the STWF was calibrated by the Federal Reserve with a firm-specific weight, with RWA in the denominator, to achieve a particular objective

  "*… consideration of a GSIB's short-term wholesale funding amount as a percentage of its risk-weighted assets is an appropriate means of scaling in a firm-specific manner a firm's use of short-term wholesale funding. This approach reflects the view that the systemic risks associated with a firm's use of short-term wholesale funding are comparable regardless of the business model of the firm. …* ***Dividing short-term wholesale funding by risk-weighted assets helps ensure that two firms that use the same amount of short-term wholesale funding would be required to hold the same dollar amount of additional capital regardless of such differences in business model.***"

- We provide a simple mathematical illustration below to show how having RWA in the denominator achieves the Federal Reserve's objective that two firms with the same amount of short-term wholesale funding would be required to hold the same dollar amount of additional capital

Mathematical illustration[1] of current rules

$$GSIB\ score\ contribution\ (points) = \frac{350}{RWA}\ X\ STWF$$

$$GSIB\ surcharge\ contribution = \sim\frac{1}{2}\ X\ \frac{1}{10{,}000}\ X\ \frac{350}{RWA}\ X\ STWF$$

$$Capital\ required\ to\ to\ be\ held\ (\$) = \sim\frac{1}{2}\ X\ \frac{1}{10{,}000}\ X\ \frac{350}{\cancel{RWA}}\ X\ STWF\ X\ \cancel{RWA} = \mathbf{1.75\%\ X\ STWF}$$

1. For illustrative purposes, ignores the time lag in the measurement date vs. effective date of the GSIB surcharge and the discrete bucket sizes.

Numerical example illustrating the outcome of the STWF policy change

Assumes $100B of incremental STWF amount

	Current Rules		GSIB Proposal without STWF policy change[1]		GSIB Proposal	
	Bank A	**Bank B**	**Bank A**	**Bank B**	**Bank A**	**Bank B**
1) Incremental STWF	$100B	$100B	$100B	$100B	$100B	$100B
2) RWA	$2,000B	$500B	$2,000B	$500B	$2,000B	$500B
3) STWF Weight	17.5% *(350 / RWA)*	70.0% *(350 / RWA)*	10.0% *(200 / RWA)*	40.0% *(200 / RWA)*	23.0%	23.0%
4) Score Contribution *(Line 3 x 100)*	17.5pts	70pts	10pts	40pts	23pts	23pts
5) Surcharge Impact *(Line 4 / 2 / 10000)*	8.75bps	35bps	5bps	20bps	11.5bps	11.5bps
6) CET1 $ Required *(Line 5 x Line 2)*	**$1.75B**	**$1.75B**	**$1.0B**	**$1.0B**	**$2.3B**	**$0.575B**

Without the policy change, the GSIB Proposal would have resulted in the same reduction in STWF requirement across all GSIBs reflecting the overall recalibration of GSIB surcharge lower

However, with the policy change, Bank A has a significantly higher capital requirement for the STWF component. On the basis that Bank B's $0.575B is adequate to capture STWF runnability and fire-sale concerns for the $100B of STWF Amount, then the incremental $1.725B of capital required at Bank A (i.e., $2.3B -$0.575B) can be thought of as an additional RWA based requirement.

[1] GSIB Proposal without STWF policy change considers an alternative approach which includes all aspects of the 2026 GSIB Proposal but retains the current STWF approach with RWA in the denominator and, consistent with the Proposal adjusts the 350 multiplier in the current rule downwards such that the overall STWF scores of all GSIB is 20% of the total score. We estimate the re-calibrated multiplier is reduced from 350 to ~200.

This policy change adversely impacts the larger banks and has significant implications

- **GSIB surcharges for the larger banks remain inflated as this policy change materially offsets the proposal's benefit from adjustments for historical growth**
  - Example: JPM's 5.5% GSIB surcharge effective in 1Q2028 under current rules, would have been reduced to 4.6% (down 90 bps) without this policy change; instead with the change, JPM's surcharge would be 5.2%[1] (down just 30 bps)
    - In comparison, some GSIBs would have their surcharges reduced by over 100bps under the proposal, as written
  - The policy change increases the overall dollars of GSIB capital which is largely borne by JPM and BAC: ~$12B higher required GSIB capital (based on indicators as of year-end 2024) and ~$21B (as of year-end 2025)

- **Inclusion of this policy change may adversely impact the cost of credit provided by some U.S. GSIBs, including for mortgages and auto loans**
  - As shown on the prior page, under current rules a bank's required dollars of capital for STWF does not change with an increase in its RWA; while under the proposal, a bank will now be required to hold more dollars of capital for STWF for any increase in RWA, even if STWF is unchanged
  - This policy change, could therefore result in higher cost of credit on mortgages and auto loans provided by GSIBs, compared to a proposal without this change

- **The proposal provided insufficient and limited analysis to demonstrate the impact of this specific policy change**
  - Given the significance of this change, we recommend the Federal Reserve retain the existing STWF framework, with RWA in the denominator, until stronger empirical and analytical support is developed for an alternative approach

[1] Proforma based on NPR's 1.2 adjustment for growth and change in STWF. Does not include any adjustments for future GDP growth from 2024.

GSIB Proposal: adjustments for historical and future economic growth

- **Adjustments for future growth**
  - We welcome the 2026 GSIB Proposal's automatic adjustments for future growth, based on growth in U.S. nominal GDP
  - Clarification is required to ensure there are no gaps in the transition from historical adjustments to future growth adjustments
    - Given year-end 2024 is the end of the historical period used to determine the adjustment for historical economic growth, adjustments for future growth should begin from 2024 (consistent with the GSIB Proposal, the future growth should begin with the average GDP over the 3-year period ending in 2024)
    - A proposed change is included below

> *"GDP growth adjustment means the most recent annual scalar published by the Board equal to the greater of:*
>
> *(1) The ratio of:*
>
> *(i) The average of nominal United States gross domestic product in the three calendar years prior to publication of the scalar, as reflected by the most current estimates published by the Bureau of Economic Analysis on or before September 30th of the year of the publication of the scalar, or a comparable value; to*
>
> *(ii) The average of nominal United States gross domestic product in the three calendar years ending in 2024 ~~[prior to the effective date of a final rule]~~, as reflected by the most current estimates published by the Bureau of Economic Analysis; or … "*

- **Adjustments for historical growth**
  - It is not clear the 20% growth factor provided in the proposal adequately accounts for the impact of U.S. economic growth and inflation on GSIB surcharges, given
    - The NPR's proposed adjustment and the associated alternatives ranged from 20-40% (see next page)
    - The growth in U.S. nominal GDP since rule adoption is ~60%

GSIB Proposal: alternatives for adjustments for economic growth including alternatives considered in the proposal

Approach	Historical growth adjustment measure	Historical time period	Historical growth Adjustment Factor	Future growth Adjustment measure
GSIB Proposal	Difference in cumulative growth between M2 and M1 scores of U.S. GSIBs	2019 - 2024	**20%**[1]	Nominal GDP
Proposal's Alternative #1: "Inflation Indexing"	Cumulative growth in CPI-W	2015-2024	**34%**[1]	CPI-W
Proposal's Alternative #2: "Global Denominators"	Cumulative growth in the Basel global denominators	Effectively, since inception of 2015 U.S. GSIB rules	**< 20%**[1]	Not specified in NPR
Proposal's Alternative #3: "Reference Bank"	Difference in cumulative growth between M2 and M1 scores of the "Reference Bank"	2015-2024	**40%**[1]	Not specified in NPR
Another alternative based on Nominal GDP	Cumulative growth in nominal GDP	2015-2024	**62%**	Nominal GDP

1. 91 FR 14932 available here

Overlaps in the capital framework

- There are multiple overlaps throughout the capital framework, all of which will remain should the GSIB, B3 and Stress Testing proposals be finalized as written
- The subsequent pages highlight overlaps that the Agencies should look to address as a matter of priority when finalizing the 2026 GSIB and B3 proposals

#	Category	Overlaps that exist
1	Size based effects	• GSIB • Operational risk RWA (BIC multiplier) • Residual factors in Stress Testing/SCB linked to assets
2	Operational risk	• Operational risk RWA • Stress Testing/SCB - Operational risk losses
3	Market risk exposures	• FRTB • Stress Testing/SCB - Global Market Shock • Stress Testing/SCB – PPNR / Other Losses • Stress Testing/SCB – Incremental Default Risk
4	Counterparty credit risk	• CVA RWA • Stress Testing/SCB - CVA • Derivatives and repo RWA • Stress Testing/SCB – Large Counterparty Default • SA-CCR
5	General credit risk	• Credit risk RWA • Stress Testing/SCB - Credit losses

Operational risk RWA

Capital requirements for operational risk are materially over-calibrated under the proposals

- The inclusion of operational risk RWA in the capital stack to which the SCB is applied creates a significant overlap with operational losses included in the SCB
  - The result is a material over-capitalization of operational risk
- The use of size, specifically business volume, as a proxy for operational risk exposure also introduces a multiplicative size-based penalty
  - BIC coefficients that step up as business volume increases create a large-bank-surcharge effect in the calculation of RWA
  - This size-based RWA is then applied to the size-based GSIB surcharge, resulting in a multiplicative size-based effect
- The proposal is also unclear on the ability to net depreciation expense that is directly related to the provision of operating leases, potentially overstating business volume and operational risk RWA for such activity

Recommendations:

- Eliminate the overlap between the SCB and operational risk RWA and the resulting over-calibration of operational risk capital
- Remove the multiplicative effect of the size-based penalty that arises in the current calibration of operational risk RWA
- At a minimum, the Agencies should:
  - Set the BIC coefficient to a flat 12% regardless of the quantum of a bank's business volume
  - Explicitly allow netting of operating lease revenue and net the associated depreciation expense for leases and include both components within the interest, lease, and dividend component of the BIC given the financing nature of this activity
- Explore whether the BIC coefficient should be reduced below 12%, in order to fully eliminate the overlap between operational risk RWA and the SCB, based the final calibration of the Stress Test models

Risk-weighted assets

A number of adjustments should be made to RWA to better reflect underlying risk

Term Repo Style Transactions

- Under the current rule a bank may recognize the benefit of non-financial collateral for term repo style transactions in counterparty credit risk where the bank has elected to include the interest rate risk of such transactions in general market risk
- To make the same election under the proposal, a bank must record a default risk capital charge as well as a general market risk charge. This is not aligned to underlying risk and likely results in additional RWA, making the election practically unworkable
  - A bank should not be required to record a default risk capital charge when making the election to recognize the benefit of non-financial collateral for term repo style transactions in counterparty credit risk

Counterparty Credit Risk

- The proposed amendments to the SA-CCR exposure measure to recognize the benefit of cross product margining between repos and derivatives for capital purposes ("Extended SA-CCR") is unduly punitive and not reflective of underlying risk
  - The Agencies should amend Extended SA-CCR to more accurately reflect the risk position of cross-product margined portfolios

Securitization

- There are a number of specific advocacy points and technical clarifications in the securitization framework that should be addressed in the final rule. A few examples are:
  - The word "solely" should not be added to the definition of a securitization, and the existing definition should be retained
  - Confirmation that delinquent mortgages or loans guaranteed by FHA, VA, and USDA can be excluded from parameter "W"
  - Financing of servicer cash advances should be exempt from the 100% re-securitization risk-weight floor

Risk-weighted assets

A number of adjustments should be made to RWA to better reflect underlying risk

Commitment Definition

- The revised definition of a "commitment" is practically unimplementable and should be removed from the B3 proposal and the existing definition should be retained
  - The Agencies should engage with the industry to understand current practice and, if necessary, repropose a revised commitment definition separately
- Any subsequent proposal that widens the definition of a commitment will increase capital requirements and the Agencies should acknowledge that in their impact assessment when finalizing the B3 proposal

Small Business

- The proposed definition of a Small or Medium-Sized Entity (SME) requires banks to annually assess whether an SME's revenue is less than $50m
  - The final rule should revise the definition to depend on the SME's revenues at the time of origination or re-underwriting to (i) align risk weight criteria with the information firms use to make underwriting decisions and (ii) minimize burden on small businesses seeking access to credit

Credit Cards

- Based on observed behavior in stress, the credit conversion factor (CCF) for transactor credit card exposures should be reduced from the proposed 10%
  - Definition of transactor should be reconsidered for borrowers who infrequently revolve

Mortgage Servicing Rights (MSRs)

- The current risk weight of 250% for effectively hedged MSRs with high credit quality underlying mortgages should be reduced

Implementation timeline

The B3, GSIB and Stress Testing proposals have been jointly calibrated, and the implementation timelines should be finalized in a way that allow the changes to take effect without leading to unnecessary short-term increases in overall capital requirements

- We recommend that final B3 revisions go live no sooner than January 1, 2028
- With respect to GSIB, we understand from the proposal that firms would be able to adopt the GSIB rule immediately once finalized, this includes application of the economic growth adjustment
  - We expect averaging and other changes included in the revised Y-15 instructions would not be immediately applicable

- With six of the eight GSIBs expecting to see an increase in their GSIB requirements (effective 1Q28) under the current calculation, we recommend the Federal Reserve allows for a transition from the old to the new GSIB framework as B3 comes into effect
  - We recommend that firms' GSIB requirements are capped at the GSIB surcharge in effect when the GSIB rule is finalized, unless the surcharge is lower under the revised requirements
  - Under this approach, assuming the GSIB rule is finalized in 4Q26, for JPMorgan:
    - The effective surcharge would remain at 4.5% from 4Q26 until 1Q28 when the surcharge would be updated based on the application of revised GSIB rule to the 4Q26 measurement date results
    - Subsequently application of the revised GSIB rule and revised Y-15 instructions to the 4Q27 measurement date results would result in a revised GSIB surcharge effective 1Q29 if lower, or 1Q30 if higher