Meeting Between Vice Chair for Supervision Bowman and Staff of the Federal Reserve Board and Representatives of the Securities Industry and Financial Markets Association
July 31, 2026

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

Ken Bentsen, Joe Seidel, and Guowei Zhang (Securities Industry and Financial Markets Association)

Summary: Vice Chair for Supervision Bowman and staff of the Federal Reserve Board met with representatives of the Securities Industry and Financial Markets Association (SIFMA). The SIFMA representatives made several recommendations related to the agencies' Basel III notice of proposed rulemaking, including recognizing cross-product netting and cross-margining, recognizing hedging and diversification benefits across asset classes, excluding commercial end-user derivatives from credit valuation adjustment capital requirements, aligning capital requirements with risk, and reflecting each bank's systemic risk profile.

Attachment

Basel 3 Endgame and U.S. Capital Markets

PRESENTED BY
SIFMA

July 2026

Agenda

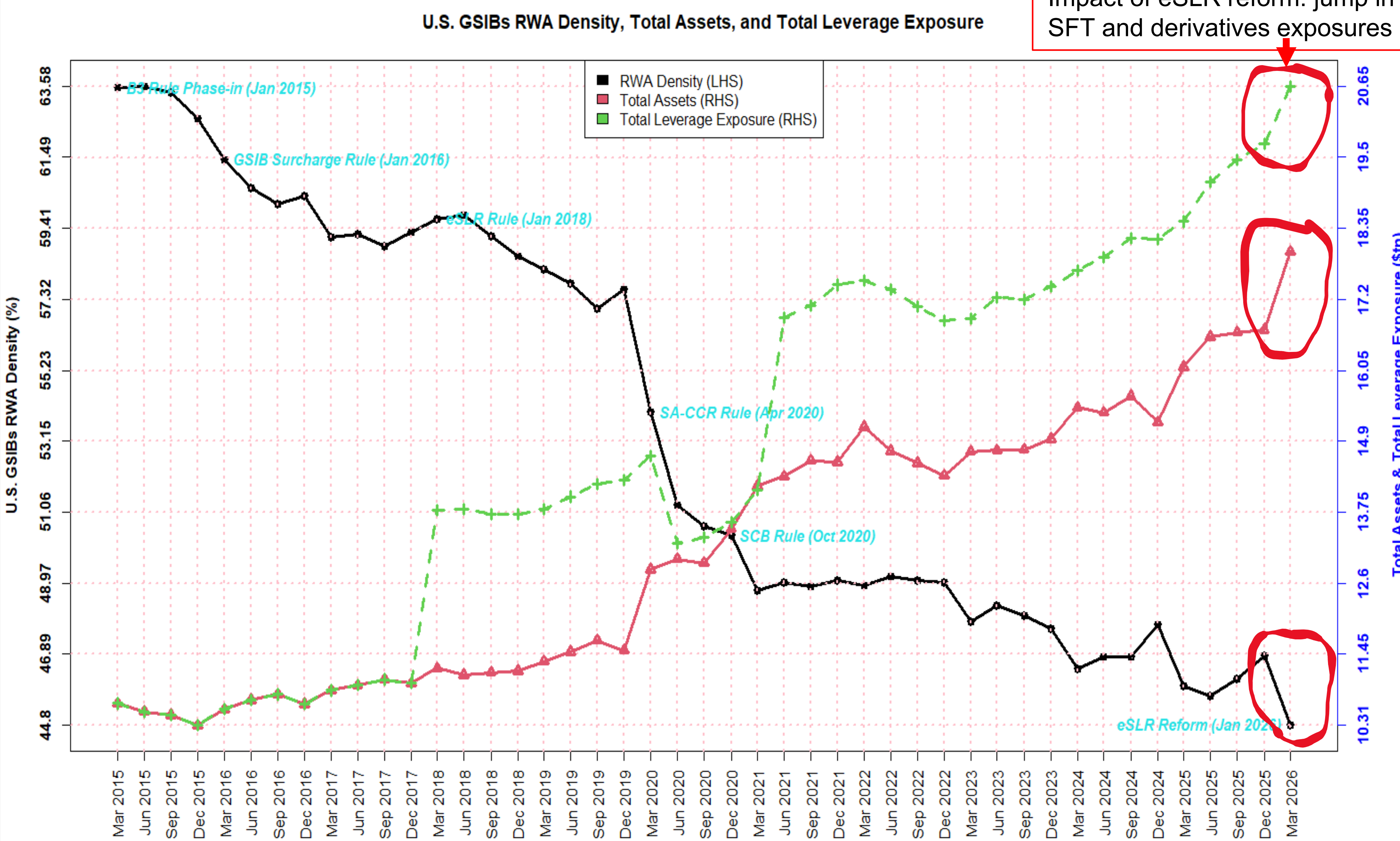
1. Executive Summary
2. U.S. Banks' Balance Sheet Riskiness
3. SIFMA Recommend Targeted Adjustments to the Basel 3 Endgame

1 Executive Summary

- The U.S. capital markets fund nearly three quarters of all U.S. economic activity. Banks are the cornerstone of the smooth functioning of the U.S. capital markets.
- A balanced prudential framework is essential to preserve banks' intermediation role, requiring holistic consideration of leverage ratios, Basel III Endgame, the GSIB surcharge, and stress testing.
- Modernizing the capital framework should align requirements more closely with the risks of banks' capital markets activities and avoid unintended aggregate increases that could constrain intermediation.
- Today, we will discuss policy considerations for the capital treatment of SIFMA members' capital markets activities under the Basel 3 Endgame re-proposal, review our recommended key targeted adjustments, and present our QIS results:
    1. ***Capital requirements should reflect cross-product netting and cross-margining benefits.***
    2. ***FRTB should recognize hedging and diversification benefits across asset classes.***
    3. ***Commercial end-user derivatives should be excluded from CVA capital requirements.***
    4. ***Capital requirements should align with risk without excessive conservatism.***
    5. ***Capital requirements should reflect each bank's systemic risk profile.***

2 U.S. Banks' Balance Sheet Riskiness

Impact of eSLR reform: jump in SFT and derivatives exposures



- *Risk reducing regulations (e.g., Volcker Rule, mandatory clearing, margining, and CCAR);*
- *Prudent risk management practices (e.g., hedging, diversification, exposure netting, portfolio compression)*

2 U.S. Banks’ Balance Sheet Riskiness

The benefits of cross-margining arrangements and cross-product netting:

- Since April 30, 2026, DTCC and CME Group have expanded cross-margining to eligible end-user clients of firms that are common members of FICC and CME, allowing offsetting Treasury and interest rate futures positions to generate capital and margin efficiencies.
- Large and regional banks will be affected because cross-margining and cross-product netting influences various activities such as liquidity management and AOCI volatility hedging:
    1. *Lower margin on hedged liquidity portfolios.* Regional banks can net offsetting Treasury and futures positions, reducing initial margin requirements and freeing cash.
    2. *Support for AOCI-driven hedging.* If AOCI is fully reflected in large regional banks’ capital, cross-margining can help manage increased hedging needs without duplicative initial margin costs.
- The proposed expanded SA-CCR framework provides limited recognition of cross-product netting, which increases exposure amounts and reduces the intended capital savings. Our comment letter recommended greater recognition of the netting benefit.

3 The Basel 3 Endgame

- The March 2026 re-proposal marks meaningful progress toward a more risk-sensitive capital framework inclusive of the stress capital buffer.
- Our comment letter recommends targeted adjustments to better align capital requirements with underlying economic risk and enable banks to support capital markets more effectively.
- Our QIS quantifies the expected impact of the re-proposal and recommended adjustments:

		Current Standardized ($bn)	NPR Estimate ERBA		Mitigation Estimate ($bn)	Mitigated RWA ERBA	
			($bn)	(%)		($bn)	(%)
FRTB	**SA**	439	831	+89%	200	631	+44%
	IMA	439	573	+30%	136	437	-0%
CVA		0	168	-	59	109	-

3 The Basel 3 Endgame (cont.)

SIFMA Recommend Targeted Adjustments:

- ***SA-CCR:*** Both risk-based and leverage capital frameworks should properly reflect the risk reduction from cross-product netting and cross-margining.
- ***FRTB:*** The FRTB framework should appropriately account for the risk-reducing effects of hedging (e.g., equity hedge recognition in FRTB DRC) and diversification across different asset classes (e.g., FRTB SBM).
- ***CVA:*** Derivatives involving commercial end users should be excluded from CVA capital requirements.
- ***Overall Calibration:*** The capital framework in its entirety should be calibrated to align with the level of economic risk but avoid excessive conservatism.
- ***Tailoring:*** Capital requirements should be tailored based on a banking organization's systemic risk profile.