August 11, 2026

By Electronic Mail

The Honorable Michelle W. Bowman
Vice Chair for Supervision
Board of Governors of the Federal Reserve System

Re: Recalibration of Internal Total Loss-Absorbing Capacity Requirements for U.S. Intermediate Holding Companies

Dear Vice Chair Bowman:

The Institute of International Bankers, American Bankers Association, the Bank Policy Institute, the Institute of International Finance, the Securities Industry and Financial Markets Association, and the U.S. Chamber of Commerce (the "Associations") respectfully submit this letter to the Board of Governors of the Federal Reserve System (the "Board") to continue the dialogue on simplifying and appropriately calibrating the prudential framework applicable to the U.S. operations of international banks. This letter focuses on the Board's internal total loss-absorbing capacity ("TLAC") and related long-term debt ("LTD") requirements for U.S. intermediate holding companies ("IHCs") of global systemically important internationally headquartered banking organizations.

We support the work that the Board and other authorities have done to develop credible strategies for the orderly resolution of IHCs and other firms, and we recognize the utility of a TLAC framework as a mechanism to facilitate the execution of those strategies on a cross-border basis. The TLAC framework is intended to ensure that certain firms maintain sufficient loss-absorbing and recapitalization capacity to support orderly resolution and minimize disruption to financial stability. To achieve that objective, TLAC requirements must be calibrated to the structure, risk profile, and resolution strategy of the firms to which they apply. IHCs play an important role in supporting the smooth functioning of U.S. capital markets generally and the U.S. Treasury market in particular. Requirements that are excessive or that require unnecessary pre-positioning of resources can reduce flexibility across the group, trap capital and liquidity where they may not be needed. This could potentially constrain the ability of IHCs to support U.S. capital markets and ultimately weaken rather than strengthen financial stability.

The Associations appreciate that, in adopting the final TLAC rule, the Board made important changes to mitigate some of the most significant operational concerns raised during the original rulemaking.[1] Experience since then, however, has shown that further targeted recalibration is warranted, as the framework continues to require excessive pre-positioning of resources and impose instrument-specific requirements that are not necessary to support credible resolution. We therefore recommend that the Board make two targeted changes:

- Recalibrate the amount of required internal TLAC for non-resolution entity IHCs[2] to no more than 75 percent of the external TLAC requirement that would apply if the IHC were itself a resolution entity; and
- Remove the separate LTD requirement within internal TLAC and instead permit internal TLAC to be satisfied through any appropriate combination of eligible capital, eligible LTD, and other qualifying internal instruments, which will allow individual firms to determine which form of capital is most effective to satisfy the requirements.

We believe that this recalibration is warranted. This letter focuses on reforms to TLAC and LTD requirements for IHCs, but review of other aspects of the TLAC and LTD framework is also warranted. Set out below are some key considerations for IHCs:

Internal TLAC Requirements are Set Far Higher Than Necessary to Meet the Board's Policy Goals and Do Not Reflect the Risk Profiles

The TLAC framework imposes internal TLAC requirements that are far higher than necessary to address the Board's policy goals of promoting the resolvability and resiliency of SPOE IHCs and is not aligned with the FSB's primary objective of internal TLAC to facilitate co-operation between home and host authorities and the implementation of effective cross-border resolution strategies.[3] Rather, the TLAC framework should require SPOE IHCs to maintain internal TLAC at a level of no more than 75 percent of such requirements applicable to MPOE IHCs, as opposed to the current 90 percent level today.

The current calibration assumes that SPOE IHCs will absorb stand-alone losses under a single-point-of-entry strategy, particularly where the firm is not itself the resolution entity, and thus SPOE IHCs must maintain levels of internal TLAC that are essentially equivalent to those for U.S. Global Systemically Important Bank ("GSIBs") and MPOE IHCs.[4] The excessively high calibration levels contributes to further fragmentation of the banking system, leading to trapped capital and liquidity for global banks, which reduces flexibility in managing market shocks or intragroup funding needs in stress.

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1 For instance, the final rule provided greater flexibility for certain multiple-point-of-entry covered ("MPOE") IHCs and addressed practical concerns regarding the structure and treatment of internal LTD.

2 A "non-resolution covered IHC" would continue to operate outside of resolution proceedings while an internationally headquartered parent entity is resolved under a single-point-of-entry ("SPOE") resolution strategy (such firms are also known as SPOE IHCs). By contrast, a "resolution covered IHC" would employ a MPOE resolution strategy, which involves separate resolutions of different legal entities within a financial firm and could potentially be executed by multiple resolution authorities across multiple jurisdictions (such firms are also known as MPOE IHCs).

3 FSB Standards, Term Sheet Section 16. Internal TLAC, p. 17.

4 In fact, the Board describes the calibration for SPOE IHCs as being only "slightly lower" than the requirements for MPOE IHCs. 80 Fed. Reg. at 74940-74941.

Moreover, current internal TLAC calibration levels are unnecessarily high relative to the smaller systemic footprint of SPOE IHCs. Collectively, these IHCs represent only a fraction of the U.S. systemic footprint of U.S.-headquartered GSIBs and are smaller and less significant to U.S. financial stability than covered BHCs. Their size, composition, and risk profile more closely resemble non-GSIB U.S. regional bank holding companies, which are not subject to minimum TLAC requirements.

A lower calibration is supported by the supervisory and resolution framework implemented since adoption of the TLAC rule. IHCs and their parent organizations are now subject to robust capital, liquidity, stress testing, risk-management, all of which provide substantial safeguards against the risks that internal TLAC is intended to address. IHCs also are required to submit resolution plans that, among other things, demonstrate that the IHCs can be resolved under the Bankruptcy Code, and the Board and the Federal Deposit Insurance Corporation participate in the Crisis Management Groups ("CMGs") of virtually all the internationally headquartered parents of IHCs subject to TLAC requirements.[5]

Finally, internal TLAC for SPOE IHCs should be calibrated to support, rather than discourage, home-host cooperation in an SPOE resolution of the internationally headquartered GSIB's top-tier parent. Too little internal TLAC could reduce the home authority's incentive to deploy parent resources to recapitalize the IHC and keep it out of bankruptcy or resolution proceedings. But too much internal TLAC may encourage the U.S. host authority to ring-fence the IHC's assets because the IHC could be resolved without meaningful cooperation with the home authority. The current excessive calibration therefore risks increasing ex-post ring-fencing and misallocation of resources, rather than promoting the cooperative cross-border resolution framework that internal TLAC is intended to support.

The Requirement That a Fixed Portion of Internal TLAC be in the Form of LTD Is Unnecessary and Should Be Eliminated

The Board should update the internal TLAC framework to eliminate the separate internal LTD requirement for IHCs. Internal TLAC already provides the loss-absorbing and recapitalization capacity needed to support an IHC through eligible capital and other qualifying instruments. Because losses at the IHC would ultimately be borne by the parent resolution entity, and because the IHC's assets and operations would remain within the group even if losses were transmitted through write-down or conversion of internal TLAC instruments, requiring a prescribed amount of LTD adds complexity and cost without materially improving resolvability.

Rather, the internal LTD requirement reflects unresolved tension in the Board's approach to IHCs. The internal issuance and contractual conversion requirements assume that losses should be transferred to the internationally headquartered parent while the IHC remains outside resolution, but the calibration and LTD requirement appear to assume that the IHC would itself enter U.S. resolution proceedings.[6] IHCs are not, however, expected to emerge from Title I

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5 The CMGs meet regularly, review the authorities' resolution strategies for the internationally headquartered banking institution and its subsidiaries and develop tools for cooperation in the event of financial distress and the international bank's recovery and resolution.

6 Notably, the FSB standards do not require any portion of internal TLAC to consist of long-term debt instruments.

resolution as independent going concerns, as their resolution plans generally contemplate asset sales, liquidation, transfer, or wind-down, so a prescribed LTD requirement is not needed to provide private capital for standalone recapitalization.[7]

LTD has had an anecdotal utility of signaling when a company has depleted its going-concern capital and must be put into resolution. However, with the introduction of resolution capital execution needs ("RCEN") and resolution capital adequacy and positioning ("RCAP") for SPOE IHCs, an LTD-based signal no longer has this utility because RCEN specifies the minimum amount of capital required to resolve a company and RCAP ensures sufficient positioning of capital amongst an IHC's subsidiaries. Because a company is put into resolution proceedings once it reaches the RCEN threshold, the utility of RCEN capital is equivalent whether comprised of debt or equity and, therefore, individual firms should determine which form of capital is most effective to meet their minimum RCEN requirement. More importantly, internal LTD may complicate or preempt recovery or resolution strategies because if not aligned to RCEN calculations.

Similarly, for IHCs that employ a MPOE resolution strategy, resolution capital resources are also unnecessary because their material entities do not continue as going concerns upon the firm's entry into resolution proceedings. Moreover, unlike externally issued TLAC, internally issued LTD does not promote market discipline, as it is held within the group and therefore provides no meaningful diversification of loss-bearing capacity.

For all IHCs, where internal LTD is held solely by the parent, resolution would produce essentially the same economic result as parent support: losses would be borne within the group. The separate LTD requirement often imposes cost and complexity without improving resolvability. The Board should therefore remove this requirement and allow firms to determine the appropriate combination of qualifying internal instruments.

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[7] By contrast, external LTD is designed to support the orderly resolution of a GSIB by imposing losses on investors rather than taxpayers and providing private capital to recapitalize the firm so its critical operations can continue.

The Associations and their members appreciate your consideration of our recommendations and would welcome the opportunity to discuss these issues further. If we can answer any questions or provide any additional information, please contact the undersigned at swebster@iib.org, HBenton@aba.com, tabitha.edgens@BPI.com, aportilla@iif.com, gzhang@sifma.org, and MFlood@USChamber.com.

Respectfully submitted,

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<u>The Associations</u>

The Institute of International Bankers ("<u>IIB</u>") represents the U.S. operations of internationally headquartered financial institutions ("international banks") from over 35 countries around the world. IIB members perform a vital role in providing credit to U.S. businesses, comprising the majority of U.S. primary dealers, and enhancing the depth and liquidity of U.S. financial markets. Between 2020 and 2024, the U.S. operations of international banks underwrote more than $11 trillion in U.S. financing representing more than 40% of the $28 trillion in U.S. financing raised in the same period, including 36% of issuance done by U.S.-headquartered companies. In 2023 alone, IIB members lent more than $1.3 trillion to U.S. companies, including over $100 billion each to the technology and manufacturing sectors, supported more than $2.3 trillion in trade finance volumes and managed over $115 trillion in payments for U.S.-based companies or subsidiaries. As such, international banks have been, and will continue to be, vital contributors to the U.S. economy and financial system, serving as an important conduit directing international funding to the United States and facilitating cross-border payment and settlement activity. See Press Release, New IIB Study Shows Vital Role of International Banks in U.S. Economy (Nov. 21, 2024), available *<u>here</u>*. The study referenced in the Press Release is *available <u>here</u>*.

The American Bankers Association is the voice of the nation's $26.1 trillion banking industry, which is composed of small, regional and large banks that together employ over 2 million people, safeguard $20.5 trillion in deposits and extend $13.7 trillion in loans.

The Bank Policy Institute ("<u>BPI</u>") is a nonpartisan public policy, research and advocacy group that represents universal banks, regional banks, and the major foreign banks doing business in the United States. BPI produces academic research and analysis on regulatory and monetary policy topics, analyzes and comments on proposed regulations, and represents the financial services industry with respect to cybersecurity, fraud, and other information security issues.

The Institute of International Finance ("<u>IIF</u>") is the global association of the financial industry, with about 400 members from more than 60 countries. The IIF provides its members with innovative research, unparalleled global advocacy, and access to leading industry events that leverage its influential network. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, professional services firms, exchanges, sovereign wealth funds, hedge funds, central banks and development banks.

The Securities Industry and Financial Markets Association ("SIFMA") is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

The U.S. Chamber of Commerce is the world's largest business federation, representing approximately 300,000 direct members and indirectly representing the interests of more than three million U.S. businesses and professional organizations of every size, in every industry sector, and from every region of the country.