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By Electronic Mail

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Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Office of the Comptroller of the Currency
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Re: **Notice of Proposed Rulemaking, Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, OCC Docket ID OCC–2026–0265, Federal Reserve Docket No. 1887 and RIN 7100-AH20, FDIC RIN 3064-AF29**

Notice of Proposed Rulemaking, Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, OCC Docket ID OCC–2026–0034, Federal Reserve Docket No. R-1888 and RIN 7100-AH21, FDIC RIN 3064-AG23

The Institute of International Bankers ("IIB") appreciates the opportunity to comment on the two notices of proposed rulemaking issued by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Comptroller of the Currency ("OCC," and together with the Federal Reserve Board and the FDIC, the "Federal Banking Agencies") regarding proposed revisions to the risk-based capital requirements applicable to banking organizations.[1]

The IIB represents the U.S. operations of internationally headquartered financial institutions ("international banks") from more than 35 countries around the world. The

[1] Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 Fed. Reg. 14,952 (proposed Mar. 27, 2026) (the "ERBA Proposal"); Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15,332 (proposed Mar. 27, 2026) (the "Standardized Approach Proposal," and together with the ERBA Proposal, the "Proposals").

membership consists principally of international financial institutions that operate branches, agencies, bank subsidiaries and broker-dealer subsidiaries in the United States. The IIB works to ensure a level playing field for these institutions, which are an important source of credit for U.S. borrowers. International banks comprise the majority of U.S. primary dealers, enhancing the depth and liquidity of U.S. financial markets, and also contribute significantly to the U.S. economy through the direct employment of U.S. citizens, as well as through other operating and capital expenditures.[2] The Federal Reserve Board has noted the contributions of international banks to U.S. lending and capital markets and the resulting economic gains in the United States.[3]

The IIB supports the stated goal of the Federal Banking Agencies to improve the U.S. capital framework by enhancing its risk sensitivity, reducing its complexity and improving its transparency and consistency in connection with efforts to finalize implementation of the international capital standards promulgated by the Basel Committee on Banking Supervision ("Basel Committee"). This letter is intended to provide targeted feedback to support those efforts and ensure the continued international competitiveness of the U.S. banking system.

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[2] From 2020 to 2024, the U.S. operations of international banks underwrote more than $11 trillion in U.S. financing. This represents more than 40% of the $28 trillion in U.S. financing raised during this same time period, including 36% of the issuance done by U.S.-headquartered companies. In 2023 alone, the U.S. operations of international banks 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. *See* IIB, *New IIB Study Shows Vital Role of International Banks in U.S. Economy* (Nov. 21, 2024), https://www.iib.org/news/687551/New-IIB-Study-Shows-Vital-Role-of-International-Banks-in-U.S.-Economy.htm. The study referenced in the press release is available here.

[3] *See* Jerome H. Powell, Chair, Federal Reserve Board, *Opening Statements on Proposals to Modify Enhanced Prudential Standards for Foreign Banks and to Modify Resolution Plan Requirements for Domestic and Foreign Banks* (Apr. 8, 2019), https://www.federalreserve.gov/newsevents/pressreleases/powell-opening-statement-20190408.htm ("Foreign banks play an important role in our economy. They facilitate commerce, and provide credit and needed investment."); *see also* FEDERAL RESERVE BOARD, FINANCIAL STABILITY REPORT 64 (2023), https://www.federalreserve.gov/publications/files/financial-stability-report-20230508.pdf (noting the crucial role of international banks, including in providing dollar liquidity via U.S. dollar-denominated swaps).

I. Executive Summary

The following summarizes our recommendations to the Federal Banking Agencies with respect to the Proposals:

- Index thresholds using nominal gross domestic product ("GDP") rather than the consumer price index for urban wage earners and clerical workers ("CPI-W") to more accurately reflect size of assets or other capital measures relative to the U.S. economy.

- Retain the existing definition of "commitment" to promote clarity and regulatory consistency and avoid unquantifiable and unsupported increases in capital requirements.

- Allow banking organizations the option to recognize accumulated other comprehensive income ("AOCI") in common equity tier 1 capital ("CET1") more quickly than over the proposed five-year transition period.

- Permit Category III and IV banking organizations to exclude pension assets when recognizing AOCI in their CET1.

- Make several adjustments to risk weights in order to model risk more accurately and preserve international banks' competitiveness by:

    - Assigning a preferential risk weight to investment grade corporate exposures under the Standardized Approach;

    - Providing a risk weight of no more than 20% to exposures to affiliated foreign banks;

    - Assigning a preferential risk weight to short-term exposures to banks; and

    - Assigning the same risk weight to a securities firm exposure as to a bank exposure when such exposure is to a securities firm that is an affiliate or subsidiary of any banking organization.

- Exclude recharge income from non-financial services provided to a foreign parent or affiliate from the business indicator component of operational risk capital requirements to avoid overstating operational risk.

- Modify the threshold at which a banking organization would be required to undertake credit valuation adjustment ("CVA") risk-weighted assets ("RWAs") calculations by:

    - Raising the threshold to $5 trillion;

    - Excluding from the threshold cleared derivative transactions (both the cleared and client-facing legs) and eligible credit derivatives transactions for which the banking organization recognizes credit risk mitigation benefits; and

    - Excluding from the threshold affiliate derivative transactions.

- Promulgate a flexible schedule for implementation of the Proposals, by:
    - Making the Proposals effective as of January 1, 2028;
    - Providing for an optional six-month period thereafter for banking organizations to transition;
    - Providing that capital plans, supervisory stress testing, stress capital buffer and FR Y-14 reporting for 2028 would conform to the current U.S. capital rules;
    - Providing an option for banking organizations to petition the Federal Reserve Board to reconsider their 2028 stress capital buffers based on the Proposals; and
    - Providing a single early adoption option for a banking organization to be able to apply any finalized rules pursuant to the Proposals to its December 31, 2027 capital, reporting and stress testing obligations.

II. Indexing

As the Federal Banking Agencies recognize, static dollar-based thresholds "can lead to unintended consequences if the threshold levels are not periodically updated or indexed to inflation."[4] Under the Proposals, certain thresholds would be indexed based on CPI-W.[5] We agree that thresholds should be indexed, but we recommend doing so using nominal GDP rather than CPI-W.

Different measures of inflation are useful in different contexts. For instance, the Federal Open Market Committee has stated that the price index for personal consumption expenditures is "most consistent" with implementing its statutory mandate.[6] Nominal GDP reflects changes in the value of goods and services across the entire U.S. economy. This measure is more relevant to nominal thresholds contemplated under the Proposals because nominal GDP is more indicative of relative size of assets or other capital measures to the U.S. economy, in contrast to a consumer price index. CPI-W would reflect changes in the price level for a basket of goods and services for a specific subset of consumers in the United States.[7] Indexing based on nominal GDP is more appropriate in this context because of the broad-based activities and operations of U.S. and international banking organizations. In addition, nominal GDP does not incorporate the considerable assumptions required by CPI-W and similar measures. Governor Christopher Waller made both of these observations in his statement accompanying the Proposals.[8]

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4 ERBA Proposal at 14,960; Standardized Approach Proposal at 15,364.

5 ERBA Proposal at 14,960; Standardized Approach Proposal at 15,364.

6 Federal Reserve Board, *Statement on Longer-Run Goals and Monetary Policy Strategy* (Jan. 24, 2012), https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals_201201.pdf.

7 *See* U.S. Bureau of Labor Statistics, *CPI-Urban Wage Earners and Clerical Workers (Current Series) – Help and Information* (Feb. 20, 2018), https://www.bls.gov/help/one_screen/cw.htm.

8 Christopher J. Waller, Governor, Federal Reserve Board, *Statement on Bank Capital Proposals by Governor Christopher J. Waller* (Mar. 19, 2026), https://www.federalreserve.gov/newsevents/pressreleases/waller-statement-20260319.htm.

III. Definition of "Commitment"

The current U.S. capital rules define a "commitment" as "any legally binding arrangement that obligates [a banking organization] to extend credit or to purchase assets."[9] The Proposals would amend the definition of "commitment" and its application to include any "contractual arrangement, under which a [banking organization] and an obligor agree to terms applicable to one or more future extensions of credit, purchases of assets, or issuances of credit substitutes by the [banking organization], whether or not such arrangement is unconditionally cancelable."[10] Although the Federal Banking Agencies characterize this and associated modifications as clarifications rather than substantive changes,[11] in our view these changes would constitute a substantial expansion of, and the creation of material ambiguities with regard to, the definition of "commitment." We recommend that the Federal Banking Agencies retain the existing concept of "commitment" and its application.

The proposed definition of "commitment" would result in a greater number of arrangements being classified as commitments by: (i) removing the qualifier that such an arrangement must be "legally binding" to qualify as a commitment; and (ii) expanding its scope to include an arrangement regardless of "whether or not such arrangement is unconditionally cancelable."

Under these proposed changes, the attempt to clarify would, in fact, result in ambiguity and uncertainty. The delineation between a commitment and a negotiation that is not a commitment under the Proposals is unclear, undermining the Federal Banking Agencies' stated goals of clarity for and consistent treatment of similar arrangements.[12] The distinction between "merely offer[ing] potential terms to a potential obligor," which the Federal Banking Agencies indicate would not be a commitment,[13] and creating "an arrangement where [a] banking organization could expect to purchase assets or to extend credit to an obligor" or "agree[ing] on material terms on which […] lending would take place,"[14] both of which the Federal Banking Agencies indicate would be a commitment, is vague and injects significant elements of subjectivity that would increase disparate practices across banks. These ambiguities are exacerbated by the removal of the qualifier that a commitment be legally binding, which provides a bright line test for determining the treatment of such arrangements. Additionally, the Federal Banking Agencies do not clarify what "terms" would be sufficiently "material" to qualify as a commitment. The Proposals thus leave unanswered how to determine whether a banking organization has an exposure that incurs a capital requirement. It seems infeasible for supervisors to apply such ambiguous standards consistently.

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9 12 CFR 3.2, 217.2, 324.2. For purposes of this comment letter, references to the "current U.S. capital rules" are to the standardized approach for calculating bank capital requirements currently in effect, whereas references to the "Standardized Approach" and "ERBA" are with respect to the frameworks contemplated in the Proposals.

10 ERBA Proposal at 14,977; Standardized Approach Proposal at 15,342.

11 *See* ERBA Proposal at 14,977; Standardized Approach Proposal at 15,342.

12 *See* ERBA Proposal at 14,977; Standardized Approach Proposal at 15,342.

13 ERBA Proposal at 14,977; Standardized Approach Proposal at 15,342.

14 ERBA Proposal at 14,978; Standardized Approach Proposal at 15,342.

Assuming one could determine which arrangements would qualify as "commitments," related revisions to risk weights applicable to commitments in the ERBA Proposal would result in punitive capital requirements for these arrangements relative to the current U.S. capital rules. Under the current U.S. capital rules, the unused portions of unconditionally cancellable arrangements are currently subject to a credit conversion factor ("CCF") of 0%.[15] Under the ERBA Proposal, the CCF applicable to the unused portions of an unconditionally cancelable commitment would be increased to 10%.[16] The proposed expansion of the definition of "commitment" in tandem with this increase in CCF could have a significant effect on calculated off-balance sheet exposures despite the absence of legal obligation for a banking organization subject to ERBA. The Federal Banking Agencies do not elaborate or justify their claim that this increase would "better recognize[] the inherent risk in such commitments."[17]

In addition, arrangements newly included in the definition of "commitment" would be subject to a minimum CCF of 10% under the supplementary leverage ratio as off-balance sheet "exposures."[18] This would result in an unjustified, broadly applicable increase in the risk-insensitive capital requirements for arrangements that are currently excluded from the definition of commitment for banking organizations subject to either the Standardized Approach or ERBA. Applying a CCF of 10% on a commitment that is not legally binding, such as an uncommitted, unconditionally cancelable facility,[19] would overstate its overall risk, and, as a result, not reflect the actual risk that a banking organization faces.

The proposed definition of commitment would also create inconsistencies with other frameworks applicable to banking organizations, including U.S. liquidity regulation and single-counterparty credit limits. Under the U.S. liquidity rules, a credit facility and a liquidity facility include only those where there is a "*legally binding agreement* to extend funds", and a "committed" facility is one that, in contrast to the definition in the Proposals, is *not* "unconditionally cancelable".[20] Regulatory requirements to cover outflow amounts apply only when there are undrawn amounts of *committed* credit and liquidity facilities.[21] Similarly, the Federal Reserve Board's single-counterparty credit limits provide that a covered company may "reduce its gross credit exposure by the amount of the unused portion of the credit extension to the extent that [it] *does not have any legal obligation to advance additional funds* under the extension of credit and the used portion of the credit extension has been fully secured by eligible collateral."[22] Because the definition of commitment under the Proposals would eliminate the qualifier that an arrangement must be "legally binding,"[23] an exposure may be a commitment for purposes of the U.S. capital rules but not for purposes of the U.S. liquidity rules or the Federal

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15 12 CFR 3.33(b)(1), 217.33(b)(1), 324.33(b)(1).

16 ERBA Proposal at 14,978.

17 *Id.* at 15,138.

18 *See* 12 CFR 3.10(c)(2)(viii), 217.10(c)(2)(viii), 324.10(c)(2)(viii).

19 ERBA Proposal at 14,977-78.

20 12 CFR 50.3, 249.3, 329.3 (emphasis added); *see* 12 CFR 50.3, 249.3, 329.3 (definitions of "secured funding transaction" and "secured lending transaction" requiring a legally binding agreement).

21 12 CFR 50.32(e)(1), 249.32(e)(1), 329.32(e)(1).

22 12 CFR 252.74(f)(1) (emphasis added).

23 ERBA Proposal at 14,977; Standardized Approach Proposal at 15,342.

Reserve Board's single-counterparty credit limits. This incongruence would introduce confusion and operational burden, and it is not clear why this disparate treatment would be justified.

Moreover, the proposed definition of commitment would also contravene regulatory reporting requirements which rely on standards under U.S. Generally Accepted Accounting Principles ("GAAP"). Under U.S. GAAP, a commitment is excluded from exposures for which expected credit losses must be estimated where a commitment may be canceled unilaterally and irrevocably.[24] Reporting requirements, such as those under Form FR Y-9C, conform to this definition.[25] Again, we do not believe that the Federal Banking Agencies have sufficiently justified deviating from the widely accepted concepts of commitment and unconditionally cancelable.

Finally, the proposed definition of commitment would increase capital requirements by a magnitude that cannot be quantified currently and is not analyzed by the Federal Banking Agencies. The ambiguities introduced by the proposed changes prevent banking organizations and the Federal Banking Agencies from estimating the impact of the revised definition on capital requirements because they do not know which arrangements would now be classified as commitments with sufficient specificity.

Under the Administrative Procedure Act ("APA"), an agency may not undertake an action that is arbitrary or capricious.[26] Case law interpreting the APA provides that an agency action may be arbitrary or capricious if the agency does not "examine the relevant data and articulate a satisfactory explanation for its action including a rational connection between the facts found and the choices made" or "entirely fail[s] to consider an important aspect of the problem."[27] Such concerns may be heightened where a rulemaking "depart[s] from a prior policy," and in particular where that "prior policy has engendered serious reliance interests that must be taken into account."[28] In our view, the proposed change to the definition of commitment and its substantive effects would implicate these concerns because they depart from policy on which our members and other banking organizations have relied. For these reasons, we recommend that the Federal Banking Agencies maintain the existing definitions associated with "commitment."

IV. Definition of Capital

Under the current U.S. capital rules, Category III and IV banking organizations are not required to recognize AOCI in CET1.[29] The Proposals would require all Category III and IV

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24 *See* Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Topic 326-20-30-11: Financial Instruments-Credit Losses: Measured at Amortized Cost, Off-Balance-Sheet Credit Exposures.

25 *See* FEDERAL RESERVE BOARD, INSTRUCTIONS FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS FOR HOLDING COMPANIES: REPORTING FORM FR Y-9C (2026), Schedule HI.

26 5 U.S.C. §§ 551–559.

27 *Motor Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).

28 *FCC v. Fox Television Stations, Inc.*, 556 U.S. 502, 515 (2009) (internal citations omitted).

29 *See* 12 CFR 3.22(b)(2), 217.22(b)(2), 324.22(b)(2) (defining the scope of the AOCI opt-out election to include only banking organizations not required to use the advanced approaches); 12 CFR 3.100(b), 217.100(b), 324.100(b) (defining the scope of the required use of the advanced approaches).

banking organizations to recognize "most elements" of AOCI in CET1, apportioned evenly over a five-year transition period.[30]

A. The Federal Banking Agencies should allow banking organizations the option to recognize AOCI more quickly than over the proposed five-year transition period.

We appreciate that the five-year transition period is intended to "provide sufficient time to adapt to the changes while minimizing any potential impact."[31] However, in some instances, a banking organization may benefit, as a matter of operational or capital planning, from recognizing AOCI more quickly than the proposed five-year transition period. We recommend that the Federal Banking Agencies provide banking organizations newly required to recognize AOCI with the option to do so at any time during the transition period adopted in a final rule. This option would provide these banking organizations with appropriate flexibility while also supporting the stated goals of the Federal Banking Agencies to "better reflect [] capital adequacy and loss-absorbing capacity" through the recognition of AOCI.[32] In our view, a reasonable transition period with optionality would facilitate enhanced risk sensitivity while preserving flexibility for banking organizations, supporting the efficient execution of the Federal Banking Agencies' goals.

B. The Federal Banking Agencies should exclude pension-related AOCI from CET1.

The Proposals would end the current opt-out that permits Category III and IV banking organizations to exclude most AOCI from CET1, and would extend the same requirement to any firm that elects to apply ERBA.[33] Under ASC 715, the funded status of defined benefit plans is required to be recognized on a banking organization's balance sheet, and gains and losses on plan assets (i.e., differences between expected and actual returns on plan assets) can be reflected in AOCI and later amortized through net plan expenses.[34] This creates unwarranted volatility in the AOCI number, and such volatility is different from that of available-for-sale securities. Pension assets are long-term assets, meant to be held for significant periods of time to fund payouts to departed or retired employees over multiple years in the company's past and over a number of years into the future. In addition, unlike mark-to-market changes in securities, inclusion of pension asset price changes in AOCI is affected by modifications to actuarial assumptions and the expected return on assets. These assets are also not to be sold to fund general operational and liquidity needs of the banking organization, as they are typically held in trust to address commitments to pay pensions in the future.

The analytical groundwork for a pension exclusion was laid in the Federal Banking Agencies' own prior rulemaking. In their 2013 rule, when the Federal Banking Agencies stated that "a banking organization that is not subject to the advanced approaches rule may make a one-

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30 ERBA Proposal at 14,957; Standardized Approach Proposal at 15,335.

31 Standardized Approach Proposal at 15,335.

32 *Id.*

33 *See* Standardized Approach Proposal at 15,335-37 (describing the scope of AOCI recognition and phase-in); ERBA Proposal at 14,957 (same).

34 FASB, ASC Topic 715: Compensation-Retirement Benefits.

time election not to include most elements of AOCI,"[35] they did so, in significant part, to ameliorate concerns about post-retirement defined benefit plans. The 2013 AOCI Rule acknowledged that interest rate movements "could lead to material fluctuations in the value of a banking organization's defined benefit post-retirement fund assets and liabilities, which in turn could create material swings in a banking organization's regulatory capital that would not be tied to changes in the credit quality of the underlying assets."[36]

Nothing in the intervening years has called that analysis into question. Pension obligations are long-duration liabilities, and their AOCI impact is substantially governed by actuarial assumptions and the prevailing yield curve, not by shifts in asset quality or near-term loss exposure. When long-term interest rates move, the present value of a firm's pension obligations changes mechanically, even though the firm's actual obligation to pay benefits over the next 15 to 20 years has not changed in any economically meaningful way. The resulting swing in AOCI and, under the Proposals, in CET1, would not provide incremental information about a firm's ability to absorb credit losses or meet near-term obligations but rather introduce rate-driven volatility that is decoupled from those risks. The practical consequences of this volatility may be significant. A firm's pension-related AOCI component may swing substantially in a given quarter—driven entirely by yield-curve movements—while its earnings, risk profile and loss-absorbing capacity remain unchanged. The result would be a CET1 ratio that changes for reasons unrelated to the firm's actual financial condition, sending a misleading signal to markets, counterparties and supervisors alike. Rather than making capital ratios more informative, including pension-related AOCI would introduce noise that obscures the transparency the Proposals seek to achieve.

A potential counterargument is that the Federal Banking Agencies already considered and declined to carve out pension-related AOCI in the 2013 AOCI Rule and that revisiting the issue now would be inconsistent with that decision. The rulemaking record, however, does not support that reading. To respond to concerns about pension-related AOCI during the 2013 rulemaking, the Federal Banking Agencies offered a blanket opt-out from most AOCI recognition to banking organizations not subject to the advanced approaches.[37] That opt-out made the pension question moot as a practical matter, but it was not a substantive determination that pension-related AOCI is relevant to capital adequacy.

The Proposals already treat individual AOCI components differently, which confirms that the Federal Banking Agencies support recognizing AOCI according to individual components rather than on an all-or-nothing basis. Notably, the Proposals exclude accumulated net gains and losses on cash-flow hedges where the hedged item is not carried at fair value.[38] The logic is

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35 Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule, 78 Fed. Reg. 62,018, 62,027 (Oct. 11, 2013) (the "2013 AOCI Rule").

36 *Id.* at 62,059-60; *see* 12 CFR 3.22(b)(2)(i)(D), 217.22(b)(2)(i)(D), 324.22(b)(2)(i)(D).

37 2013 AOCI Rule at 62,042-43 (adopting blanket AOCI opt-out without separately analyzing the pension component on its merits).

38 Standardized Approach Proposal at 15,336-37 (describing this dynamic under both the Standardized Approach and ERBA); *see* Basel Committee, *CAP30.11* (Dec. 15, 2019), https://www.bis.org/basel_framework/chapter/CAP/30.htm; 12 CFR 217.22(b)(2)(i)(B).

straightforward: when an AOCI component would distort reported capital without providing information about a firm's actual risk or solvency, it should be excluded. That reasoning applies to pensions. Including pension-related AOCI in CET1 would introduce volatility driven by factors that do not reflect shifts in a firm's credit risk or capacity to absorb losses, such as long-term rate changes and actuarial recalibrations. Just as the hedge carve-out prevents CET1 from reflecting only one side of a hedging relationship, a pension carve-out would prevent CET1 from reflecting actuarial noise that does not reflect the actual ability of a firm to withstand losses.

The Federal Banking Agencies have also demonstrated a broader willingness to depart from the Basel Committee's AOCI proposals where U.S. conditions warrant. The 2013 AOCI Rule opt-out itself was a significant departure from the Basel III expectation that all AOCI components to flow through regulatory capital.[39] The Federal Banking Agencies noted commenters supported that departure to avoid "material swings in a banking organization's regulatory capital that would not be tied to changes in the credit quality of the underlying assets."[40] A pension exclusion would be far more modest than the 2013 opt-out, which removed nearly all AOCI from CET1 for many firms.

V. Risk Weights

A. The Federal Banking Agencies should provide a preferential risk weight to investment grade corporate exposures under the Standardized Approach.

Under the current U.S. capital rules, corporate exposures are subject to a 100% risk weight.[41] The Standardized Approach Proposal would reduce the risk weights applicable to these exposures to 95%.[42] In contrast, the ERBA Proposal would assign varying weights according to the type of corporate exposure, including a 65% risk weight to investment grade corporate exposures.[43] We recommend one change to add appropriate risk sensitivity to the Standardized Approach – the Federal Banking Agencies should introduce an analogous lower risk weight for these exposures under the Standardized Approach, retaining the relative simplicity of the Standardized Approach while mitigating anticompetitive effects that could arise from a large disparity in risk weights applicable to similar exposures. In particular, the competitive advantage given to Category I and Category II banking organizations that must apply the ERBA is much too significant for other banking organizations to overcome.

Although a banking organization subject to the Standardized Approach would not be subject to operational risk capital requirements under ERBA, in our view, the difference between 65% and 95% is much too great. This difference would impose considerable barriers on the ability of banking organizations subject to the Standardized Approach to compete in investment grade credit markets and to determine appropriate market pricing for these exposures, and it would disincentivize such banking organizations from seeking higher quality exposures.[44] Our

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39 2013 AOCI Rule at 62,024, 62,060-61 (departing from Basel III's full AOCI recognition requirement).

40 *Id.* at 62,060.

41 *See* 12 CFR 3.32(f)(1), 217.32(f)(1), 324.32(f)(1).

42 Standardized Approach Proposal at 15,334.

43 ERBA Proposal at 14,974-75.

44 *See, e.g.,* Michelle W. Bowman, Vice Chair for Supervision, Federal Reserve Board, *When Regulation Reshapes Markets: The Migration of Corporate Lending* (May 8, 2026) (observing that miscalibration of

recommended approach would retain the streamlined framework for corporate exposures under the Standardized Approach while materially enhancing its risk sensitivity, preserving balanced lending capacity across the economy and bolstering an engine of growth for our small and large businesses.

B. The Federal Banking Agencies should provide a risk weight of no more than 20% to exposures to affiliated foreign banks.

Under the current U.S. capital rules, exposures to U.S. domestic banks are subject primarily to a 20% risk weight and exposures to foreign banks are subject to risk weights that vary according to the country risk classification of the foreign bank's home country (which could be as low as 20% also).[45] Under the ERBA Proposal, these exposures (other than those relating to trade finance, discussed below) would be subject to risk weights that vary between 30% and 150%.[46] While the current U.S. capital rules would stay the same under the Standardized Approach, the floor on bank exposures under ERBA would increase by 50%.

Banking organizations of all types engage in inter-affiliate transactions for enterprise-wide risk management and customer accommodation purposes, but, unlike their U.S. domestic counterparts, international banks cannot eliminate inter-affiliate exposures of their U.S. intermediate holding companies ("IHCs") in consolidation. As a result, an IHC's inter-affiliate activities are subject to capital requirements that place them at a competitive disadvantage relative to U.S. domestic institutions and should be mitigated to the extent practicable. The Federal Reserve Board recognized this feature of international banks in the context of the counterparty default component of supervisory stress testing, as well as in other contexts.[47] The Federal Banking Agencies should, in both the Standardized Approach and ERBA, provide for a risk weight for affiliate foreign bank exposures of no more than 20% to account for the unique structural aspects of an IHC and to mitigate effects on financial market functioning, international bank risk management and the competitiveness of international banks.

C. The Federal Banking Agencies should assign a preferential risk weight to short-term exposures to banks.

The Proposals would not distinguish between exposures to financial institutions based on their tenor. The Basel Committee has stated that exposures with an original maturity of six months or less to banks without material default risks or limited margins of safety should

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corporate risk weights can provide "perverse incentive[s]" and noting the need to reduce gaps in risk weights and increase competition for corporate borrowing); Michelle W. Bowman, Vice Chair for Supervision, Federal Reserve Board, *Opening Remarks at the Federal Reserve Bank of Kansas City 2026 Future of Banking Conference: Powering Progress, Protecting Trust* (May 14, 2026) (arguing that "one-size-fits-all" regulations harm the competitiveness of smaller banks).

45 *See* 12 CFR 3.32(d)(1)-(2), 217.32(d)(1)-(2), 324.32(d)(1)-(2).

46 ERBA Proposal at 14,964-67.

47 Federal Reserve Board, *2026 Stress Scenarios* (Feb. 17, 2026), https://www.federalreserve.gov/publications/2026-stress-test-scenarios.htm ("[International banks] are not required to include any affiliate as a counterparty.").

be subject to a preferential risk weight.[48] Key to the Basel Committee standard on this topic is that preferential risk weights would apply to *any* exposure with an original maturity of six months or less, and not only self-liquidating, trade-related contingent items. The Basel Committee's determination on this subject was only partially reflected in the Federal Banking Agencies' 2023 proposal[49] and has also been only partially reflected in the ERBA Proposal,[50] as each included a preferential risk weight for exposures to foreign banks that are self-liquidating, trade-related contingent items with maturities of three months or less.

Short-term exposures are inherently less risky than exposures to the same counterparty with longer duration due to reduced credit risk as well as reduced duration risk. A preferential risk weight for such exposures would support the Federal Banking Agencies' stated goal of enhancing the risk sensitivity of the U.S. capital framework. In our view, the divergence from the broader Basel Committee standards would not be justified by historical data, and moreover risks undermining international harmonization efforts. Furthermore, the partially incorporated change may result in a worse risk weight for U.S. banks taking exposures to non-U.S. banks on short-term transactions than was otherwise agreed internationally, undermining financial market functioning and competitiveness.

In addition, the IHCs of international banks would be required to treat even short-term exposures to foreign bank affiliates as exposures to third parties. By declining to provide a preferential risk weight for all short-term exposures in these circumstances, the Proposals would heighten the competitive disadvantage for international banks for substantively similar activity. For instance, even timing mismatches in payment and services between an international bank and its affiliate would result in "exposures" for which there is extremely limited risk and for which U.S. domestic banking organizations would not be subject to capital requirements due to consolidation. These inter-affiliate exposures are eliminated in consolidation for U.S. domestic banking organizations but cannot be eliminated by IHCs. The Federal Banking Agencies have not provided a rationale for declining to provide a preferential risk weight to short-term bank exposures, and we recommend that the Federal Banking Agencies fully adopt the Basel Committee's preferential risk weights for short-term exposures to banks (whether affiliated or not, but particularly if affiliated) under both the Standardized Approach and ERBA.

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48 Basel Committee, *CRE 20.21, .31* (rev. June 10, 2025), https://www.bis.org/basel_framework/chapter/CRE/20.htm.

49 Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64,028, 64,042 (proposed Sept. 18, 2023).

50 ERBA Proposal at 14,966.

D. The Federal Banking Agencies should assign the same risk weight to a securities firm exposure as to a bank exposure when such exposure is to a securities firm that is an affiliate or subsidiary of any consolidated banking organization.

Under the Proposals, an exposure to a securities firm would continue to be treated as a corporate exposure.[51] In Question 14 of the ERBA Proposal,[52] the Federal Banking Agencies requested comment on the advantages of treating an exposure to a non-bank financial institution such as a foreign parent or broker-dealer subsidiary as a foreign bank exposure when that foreign jurisdiction has determined that the financial institution is regulated and supervised in a manner equivalent to a bank.[53] The Basel Committee has stated that exposures to securities firms should be treated as exposures to banks to the extent that securities firms are subject to prudential standards and supervision equivalent to those applied to banks, as determined by national supervisors.[54] Conforming the U.S. capital rules to this treatment would enhance the risk sensitivity of these exposures. A securities firm is generally subject to extensive prudential standards if it is consolidated with a banking organization. Therefore, we strongly recommend that, under both the Standardized Approach and ERBA, the Federal Banking Agencies assign the same risk weight to securities firm exposures as to bank exposures when such exposure is to a securities firm that is an affiliate or subsidiary of any consolidated banking organization.

In addition, U.S. IHCs of international banks also face their affiliated investment firms or broker-dealers, and, unlike U.S. bank holding company counterparts, U.S. IHCs would need to treat such investment firm or broker-dealer affiliates as third parties even though both the affiliate and the U.S. IHC are within a banking group subject to consolidated and comprehensive supervision and regulation, including capital requirements. As a result, exposures of a U.S. IHC to its affiliated investment firm or broker-dealer domiciled abroad would be subject to a punitive risk weight that would create an unnecessary and substantial competitive disadvantage for these institutions. Therefore, we recommend that, if a broader modification is not adopted, the Federal Banking Agencies allow IHCs to assign the same risk weight to a securities firm exposure as to a bank exposure when such exposure is to an affiliate of the IHC and consolidated with the IHC's parent organization.

VI. Operational Risk: The Federal Banking Agencies should exclude recharge income from non-financial services provided to a foreign parent or affiliate from the business indicator component of operational risk capital requirements.

In Question 88 of the ERBA Proposal, the Federal Banking Agencies requested comment on whether non-financial activities provided by a banking organization to a foreign affiliate or parent should be excluded from the business indicator component of operational risk capital requirements, as well as comment on the advantages of such exclusion and how income from

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51 *Id.* at 14,965 n.70; *see* Standardized Approach Proposal at 15,341.

52 In addition, in Questions 184 and 189 of the ERBA Proposal, the Federal Banking Agencies requested comment on the proposed risk weights for credit and CVA exposures, respectively, to financial institutions, specifically requesting comment on whether regulated financial institutions should be subject to lower risk weights. ERBA Proposal at 15,086.

53 *Id.* at 14,967.

54 Basel Committee, *CRE 20.40* (rev. June 10, 2025), https://www.bis.org/basel_framework/chapter/CRE/20.htm.

such activities ("recharge income") is distinguishable from financial income.[55] We strongly recommend that income from these activities be excluded from the business indicator.

U.S. banking organizations, including IHCs, with foreign parents and affiliates provide significant non-financial services to those foreign affiliates in the ordinary course of business. An IHC typically has cost reimbursement arrangements with its foreign parent or affiliate, which generally involve transactions booked outside of, but supported by, the IHC. The inclusion of payment arrangements for non-financial activities in the business indicator component would therefore overstate operational risk for an IHC. In addition, we note that expenses related to non-financial services received by an IHC and its subsidiaries, from either affiliates or third parties, would be excluded from the "noninterest expense for BI" component of the business indicator.[56] By continuing to include the income related to these inter-affiliate arrangements but excluding the expenses, the business indicator component would be larger than expected given the minimal operational risk. Therefore, to be consistent with the full netting in the business indicator proposed by the Federal Banking Agencies, the noninterest income from these services should also be excluded.

The inclusion of recharge income in the business indicator component would impose a substantial capital requirement on international banks to the extent that these U.S. entities and their subsidiaries provide non-financial services to a foreign parent or affiliate. In contrast, U.S. domestic banking organizations would eliminate these inter-affiliate remittances in consolidation. This would impose a disparity that is not commensurate with the operational risk arising from such services and not warranted when the income arises from mere internal management allocations among affiliated entities.

VII. CVA Risk: The Federal Banking Agencies should revise the threshold for over-the-counter notional derivatives at which a banking organization would be required to calculate CVA RWA.

Under the ERBA Proposal, certain banking organizations with $1 trillion or more in aggregate gross notional derivatives exposure would be required to calculate CVA RWAs.[57] We have three recommendations related to the application of CVA risk capital requirements: (i) the threshold should be raised to $5 trillion; (ii) the threshold should exclude cleared derivative transactions (both the cleared and client-facing legs) and eligible credit derivatives transactions for which the banking organization recognizes credit risk mitigation benefits; and (iii) the threshold should exclude affiliate derivative transactions.

In our view, the Federal Banking Agencies could streamline the application of CVA RWA requirements by raising the threshold at which a banking organization would be required to undertake CVA RWA calculations to $5 trillion. The Federal Banking Agencies noted that the threshold of $1 trillion would capture approximately 98% of over-the-counter derivatives exposures of depository institutions.[58] We estimate that a threshold of $5 trillion would still capture 93% of these exposures, while tailoring the application of this requirement to banking

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55 ERBA Proposal at 15,013.

56 *Id.* at 15,011, 15,013.

57 *Id.* at 14,956.

58 *Id.* at 14,957.

organizations that are most involved in these markets. In turn, the Federal Banking Agencies could reduce the regulatory burden imposed on banking organizations with significantly lower overall derivatives activity relative to those to which a $5 trillion threshold would apply.

Under the ERBA Proposal, a CVA risk covered position would be defined as a derivative contract that is not: (i) a cleared transaction (either the cleared or client-facing leg), or (ii) an eligible credit derivative transaction for which the banking organization recognizes credit risk mitigation benefits.[59] The Federal Banking Agencies stated that this definition would "align the scope of the CVA framework with the scope of instruments that present CVA risk."[60] In order to achieve greater alignment of the scope of CVA risk capital requirements with the scope of instruments that present CVA risk, we recommend that the threshold at which CVA RWA is required likewise exclude cleared derivatives transactions (both the cleared and client-facing legs) and eligible credit derivatives transactions for which the banking organization recognizes credit risk mitigation benefits, consistent with the proposed definition of a CVA risk covered position.

We believe that the threshold should also exclude affiliate derivatives transactions. These transactions and instruments are not well-suited for purposes of determining whether a banking organization undertakes significant derivatives activity that gives rise to CVA risk. In addition, it would penalize IHCs of international banks. Intragroup exposures are not economically equivalent to third-party counterparty exposures in light of firmwide risk transfer objectives and the absence of a market price for affiliate credit risk. In practice, CVA risk on individual affiliates is not meaningful given the affiliated nature of the counterparty, and there are not appropriate market analogs that reference internal entities. Using credit default swaps ("CDS") that reference an IHC's foreign parent organization is not economically equivalent and may introduce distortions arising from a banking organization's effective purchase of CDS protection for its own solvency. We also note that international regulators in the European Union and the United Kingdom have exempted such transactions from CVA RWA calculations.[61] We believe that international harmonization with respect to the application of CVA risk capital requirements in this context strongly favors the exclusion of intragroup derivatives transactions.

VIII. Timing

Transition periods and effective dates under the Proposals are generally unspecified. The revisions to the U.S. capital rules contemplated under the Proposals are significant, and the operational burden associated with any revisions to the U.S. capital rules is resource-intensive.

Accordingly, we recommend that the Federal Banking Agencies:

- Provide for an effective date of January 1, 2028;

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59 *Id.* at 15,079.

60 *Id.*

61 *See* European Banking Authority, *Regulation (EU) No 575/2013 (CRR)*, https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2022_6495; Bank of England, *CP16/22 – Implementation of the Basel 3.1 Standards: Credit Valuation Adjustment and Counterparty Credit Risk*, Chapter 7.6 (Nov. 30, 2022), https://www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards/credit-valuation-adjustment.

- Provide for an optional internal parallel run period which concludes upon the first regulatory reporting deadline six months after the January 1, 2028 effective date—banking organizations that opt in to the parallel run would continue to have their capital adequacy measured under the current U.S. capital rules, but they would be able to work with the Federal Banking Agencies to improve their transition during that six-month period;

- Given that the 2028 capital plans and stress test would likely be based on a December 31, 2027 balance sheet that has not yet incorporated the capital framework from the Proposals, provide that capital plans, supervisory stress testing, stress capital buffer and FR Y-14 reporting for 2028 would conform to the current U.S. capital rules.

- Provide an option for banking organizations to petition the Federal Reserve Board to reconsider their 2028 stress capital buffers based on calculations under any finalized rules pursuant to the Proposals.

- Provide a single early adoption option for a banking organization to be able to apply any finalized rules pursuant to the Proposals to its December 31, 2027 capital and reporting obligations, and, for those firms choosing this option, their capital plans, supervisory stress testing, stress capital buffer and FR Y-14 reporting for 2028 would be based on the finalized rules.

We believe this framework would effectively and timely accommodate the Federal Banking Agencies' goals and provide flexibility to banking organizations according to their respective operational or capital planning needs, which will in turn reduce any financial or operational frictions associated with the contemplated transition.

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We appreciate your consideration of our comments on the Proposals. If we can answer any questions or provide any further information, please contact me at 646-213-1147, bzorc@iib.org or Stephanie Webster, General Counsel at 646-213-1149, swebster@iib.org.

Very truly yours,

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