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Submitted via publiccomments@frb.gov, comments@FDIC.gov, and <https://regulations.gov>

June [18], 2026

Re: Notice of Proposed Rulemaking — Regulatory Capital Rule: Category I and II Banking Organizations; Regulatory Capital Rule: Regulatory Capital and Standardized Approach for Risk-weighted Assets; and Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies.

Dear Vice Chair Bowman, Comptroller Gould, and Chair Hill:

The CFA Institute Systemic Risk Council ("SRC") submits these comments in response to the three notices of proposed rulemaking issued jointly by the Board of Governors of the Federal Reserve System (the "Board"), the Federal Deposit Insurance Corporation (the "FDIC"), and the Office of the Comptroller of the Currency (the "OCC," and together with the Board and the FDIC, the "Agencies") on March 19, 2026. Those Proposals would revise the capital framework applicable to U.S. banking organizations of all sizes, implementing the remaining components of the Basel III accord for the largest institutions, recalibrating capital requirements for smaller banks, and restructuring the additional capital surcharge applicable to global systemically important bank holding companies ("GSIBs").

The SRC is a private-sector, non-partisan body comprising former senior government officials and distinguished financial and legal experts whose mandate is to promote financial stability and the integrity of financial regulation. The SRC has engaged extensively with the capital adequacy framework over many years, including through its September 2024 letter to the Board regarding

the systemic vulnerabilities posed by synthetic credit risk transfer transactions¹, and its August 2025 letter on the enhanced Supplementary Leverage Ratio for U.S. GSIBs.²

Our overarching conclusion is straightforward: the Agencies have not demonstrated any need or compelling rationale to reduce capital in the banking system, and these Proposals, taken together, would do exactly that. The Agencies estimate a net reduction of approximately \$87 billion in Common Equity Tier 1 ("CET1") capital across the affected institutions, though we believe this figure represents a lower bound of the true impact, for reasons developed below. Importantly, these proposals come on top of previous actions to reduce the Enhanced Supplementary Leverage Ratio and ease stress test requirements. Moreover, this reduction is proposed at a moment when the credit market appears to be turning and global financial markets are carrying significant and interrelated risks — elevated geopolitical uncertainty, signs of stress in private credit markets, stretched asset valuations, and growing interconnections between regulated banks and an opaque, rapidly expanding nonbank financial intermediary ("NBFI") sector. The Fed itself identified these conditions in its most recent Financial Stability Report. These are not conditions that justify loosening the primary shock-absorbers in the financial system.

The SRC acknowledges that the Proposals contain certain constructive elements — most notably, the incorporation of accumulated other comprehensive income ("AOCI") into regulatory capital for Category III and IV banks, the transition from Value-at-Risk to Expected Shortfall as the primary measure of market risk, the expansion of the GSIB interconnectedness definition to encompass a wider range of financial actors, and the increase in the Credit Conversion Factor ("CCF") for undrawn fully cancellable commitments from zero to ten percent. These represent genuine improvements to the capital rules. They do not, however, offset the fundamental concern that capital is being reduced in a manner, and at a moment, that is inconsistent with the Agencies' own financial stability mandates.

On balance, the Proposals exacerbate systemic risk in three principal ways: first, by reducing the required capital cushion at the largest and most systemically important banks, thereby reinforcing the too-big-to-fail subsidy and providing expanded capacity to grow even bigger; second, by preserving — and in some respects deepening — incentives for banks to channel credit through the NBFI sector rather than directly to the real economy; and third, by eliminating a critical regulatory backstop for modeled market risk capital requirements.

¹ CFA Institute Systemic Risk Council, Comment Letter on Credit Risk Transfer (CRT), letter to Jerome Powell, Chair, Board of Governors of the Federal Reserve System, September 18, 2024, <https://www.systemicriskcouncil.org/wp-content/uploads/2024/09/SRC-Comment-Letter-on-Credit-Risk-Transfer-CRT-18-September-2024.pdf>.

² CFA Institute Systemic Risk Council, Comments on Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for US Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions, comment letter, Docket No. R-1867, RIN 7100-AG96, August 25, 2025, <https://www.systemicriskcouncil.org/wp-content/uploads/2025/08/SystemicRiskCouncil-Comments-on-SLR-Proposal-8.25.pdf>.

Our primary concerns, as detailed further below, are:

- The relative capital strength of the US GSIBs has been a source of competitive advantage relative to European GSIBs. The Proposals ignore potential costs of giving up that advantage in their analysis of the proposed changes.
- Any stated, implied or perceived benefits related to stimulating lending to the real economy, home buyers, or small businesses are likely overstated given the persistent advantage of lending to NBFIs and investment-grade issuers.
- The economic data underlying the Proposals is outdated and the analysis is insufficient for the scale and significance of these rulemakings.
- The financial relationships between banks and nonbank financial intermediaries represent a critical and growing source of potential systemic risk, yet they are largely ignored across these Proposals even as changes expand the incentives to lend to NBFIs.
- The GSIB Surcharge proposal provides the eight U.S. Global Systemically Important Banks with significant capital relief without meaningful analysis of systemic risk implications.
- The elimination of the standardized approach floor for Category I and II banks is clearly inconsistent with the statutory requirements of the Collins Amendment to the Dodd-Frank Act and a decade of established regulatory precedent.
- Preserving model-based measures for market risk without any floor creates perverse incentives for regulatory arbitrage with respect to the trading books of internationally active banks.

The SRC specifically urges the Agencies to:

- Amend the proposal to be capital neutral given the absence of evidence that the banking system is over capitalized or that the capital rules are in fact constraining responsible lending.
- Delay further action until they collect and analyze comprehensive data on bank-NBFI exposures, beginning with the data outlined in Vice Chair Michelle Bowman's speech on May 8, 2026
- Present a coherent analysis of the appropriate balance between regulated banking and NBFIs and then build a policy to support that balance.
- Preserve an output floor for modeled market risk requirements to avoid creating perverse incentives for trading activity and
- Include private credit and both directions of SRT exposure in the amended definition of “interconnectedness” in the GSIB Surcharge methodology.

- Comply with the Collins Amendment.

I. Background

The three Proposals together constitute the most consequential restructuring of U.S. bank capital regulation since the post-crisis reforms of 2010 to 2013. Each is briefly described below.

The **Expanded Risk-Based Approach Proposal** (“ERBA Proposal”) would replace the dual-stack capital calculation now applicable to Category I and II banking organizations — the standardized approach together with the advanced approaches — with a single set of risk-based requirements under a new "expanded risk-based approach" covering credit, equity, and operational risk, alongside a revised market risk framework, which would continue to allow for modeled risk. The standardized approach would cease to apply to these firms and the advanced approaches would be eliminated. The Agencies characterize the proposal as enhancing risk sensitivity and consistency while simplifying the framework's design, and they identify reversing the post-crisis migration of activity "outside of the regulated banking sector" as an objective, citing the removal of the mortgage servicing asset deduction (replaced by a 250% risk weight) as one such measure. The Agencies project that the proposal would raise common equity tier 1 requirements at Category I and II holding companies by approximately 1.2% while reducing requirements at their depository institution subsidiaries by 5.1%, and that the cumulative effect — including the GSIB surcharge and stress-testing changes — would be a 5.0% decline at the holding-company level.

The **GSIB Surcharge Proposal** (“GSIB Proposal”) would revise the methodology for calculating risk-based capital surcharges for U.S. global systemically important bank holding companies. The Board states that the surcharge "has increased in stringency in a manner not commensurate with risk in recent years" and frames the proposal as better aligning surcharges with firms' systemic risk profiles. It makes five changes: a one-time downward adjustment of the method 2 fixed coefficients (size, interconnectedness, complexity, and cross-jurisdictional activity) by a factor of 1.2, with forward indexation to nominal GDP, on the rationale that coefficients fixed to 2012–2013 data do not reflect subsequent economic change; measurement of weighted short-term wholesale funding as an absolute amount rather than a ratio to risk-weighted assets, with a new coefficient calibrated to roughly 20% of method 2 scores; averaging of certain year-end point-in-time indicators to limit temporary reductions around measurement dates; narrower method 2 score bands to reduce cliff effects; and improved indicator measurement with conforming FR Y-15 amendments. The Board attributes a 3.8% reduction in aggregate Category I and II CET1 requirements to this proposal.

The **Standardized Approach Proposal** (“SA Proposal”) would revise the risk-based treatment of exposure categories the Agencies identify as material to covered banking organizations' lending, while retaining the approach's relative simplicity. Drawing on the business-line risk-weight analysis underlying the companion ERBA proposal, it would reduce the corporate exposure risk weight from 100% to 95%, reduce the residual "other assets" risk weight from 100% to 90%, introduce more granular residential mortgage risk weights, and conform the commitment definition and certain off-balance-sheet credit conversion factors to the ERBA proposal. It would also remove the threshold-based MSA deduction for all banking organizations (applying a uniform 250% risk weight) and require Category III and IV firms to recognize most accumulated other comprehensive income in regulatory capital over a five-year transition. The Agencies project a 3.0% reduction in CET1 requirements at Category III and IV holding companies — a 6.1% reduction from revised risk-weighted assets, partly offset by a 3.1% increase from AOCI recognition — and a 7.8% reduction at smaller holding companies.

These proposals come at a time when bank capital at GSIBs is at historically low levels. The only period since 2010 during which the GSIBs Tier 1 Leverage Ratio or Supplementary Leverage Ratio (which reflects off-balance sheet exposures, “SLR”) has been this low was the first part of 2022.³ The GSIBs already have the lowest capital ratios of any other category of US bank.⁴

US GSIBs currently have combined assets of over \$16.7 trillion and approximately \$980 billion of Common Equity Tier 1 capital. The aggregate SLR is 5.7%, down 27 basis points year over year. According to the Agencies' own estimate, those required ratios will fall by another 4.8%, a reduction of approximately \$42 billion of capital cushion, another analysis puts the reduction on track to fall much further.⁵

II. Capital strength is a competitive advantage of US banks; it should not be harmonized downward. The existence of a lower foreign standard does not, by itself, provide a justification for lowering US standards.

Strong capital has been a competitive advantage for U.S. banks — not a burden — and the Agencies should weigh the cost of surrendering that advantage before finalizing any reduction. The Proposals offer no evidence to the contrary. Still, a recurring theme in the Proposals and the

³ Bank Capital Analysis Semiannual Update, 4Q 2025 (Federal Reserve Bank of Kansas City, December 2025), https://www.kansascityfed.org/documents/16411/Bank_Capital_Analysis_-_4Q_2025.pdf.

⁴ Bank Capital Analysis Semiannual Update, 4Q 2025 (Federal Reserve Bank of Kansas City).

⁵ Dennis M. Kelleher, Phillip Basil, and Shayna Olesiuk, "Wall Street Banks Are Trying to Return to Dangerously Low 2007 Capital Levels, Again Endangering Main Street Jobs and Homes," Better Markets, October 1, 2025, <https://bettermarkets.org/analysis/wall-street-banks-are-trying-to-return-to-dangerously-low-2007-capital-levels-again-endangering-main-street-jobs-and-homes/>.

commentary surrounding them is that U.S. capital requirements exceed those applicable to banks in the European Union and the United Kingdom, and that this divergence disadvantages U.S. banking organizations in global competition. The implication is that international alignment requires the United States to lower its requirements toward European levels.

The notion of a competitive disadvantage, however, is contradicted by more than a decade of market evidence. Over the period of maximum divergence between US and European capital regimes, US banks experienced the most sustained competitive expansion in modern history.

US banks expanded their market share. US banks' share of global investment banking fees rose from 46 percent in 2015 to 51 percent in 2025, reaching 54 percent in the first quarter of 2026, while European banks' share fell from 29 percent to 21 percent over the same period — and to 20 percent in early 2026, the lowest share since records began in 2000.⁶ All five of the largest global investment banks by revenue are now American firms.

US banks have better valuations. As of year-end 2025, U.S. GSIBs held a weighted average Tier 1 leverage ratio of 6.81 percent, against 4.92 percent for European and Canadian GSIBs — and the better-capitalized U.S. firms commanded dramatically higher valuations, with JPMorgan Chase trading at 2.54 times book value and Morgan Stanley at 2.76 times, against 0.77 times for BNP Paribas and 0.82 times for Société Générale.⁷ Several European GSIBs continue to trade below book value. A premium equity valuation lowers a firm's cost of capital and provides acquisition currency and retained-earnings capacity.

Strong capitalization is also a value proposition in wholesale markets. Clients and counterparties direct flow toward dealers with the balance sheet strength to make markets, extend committed financing, and honor obligations in periods of stress. The decade-long retrenchment of European banks from capital-intensive sales and trading businesses has channeled volume toward U.S. GSIBs, all while US banks operated under the higher capital requirements. A dealer operating at a 6.8 percent leverage ratio is a more reliable counterparty than one operating at 4.9 percent, and in stressed markets that difference determines which institutions can deploy balance sheet when clients need it most and which must retrench. Moreover, well-capitalized banks are more able to lend and support growth over the market cycle. The value of staying open in a crisis is substantial, both for financial stability and for the firm.

Finally, we note the asymmetry in how international alignment is invoked across the Proposals. Where the Basel framework would produce lower requirements, alignment is treated as imperative; where it would sustain higher requirements — most notably the output floor that

⁶Mathieu Rosemain et al., "European Investment Banks Stutter as Wall Street Rivals Power Ahead," Reuters, May 5, 2026, <https://www.reuters.com/legal/transactional/european-investment-banks-stutter-wall-street-rivals-power-ahead-2026-05-05/>.

⁷ Bank Capital Analysis Semiannual Update, 4Q 2025 (Federal Reserve Bank of Kansas City)

U.S. negotiators championed — divergence is embraced with little analysis. Harmonization deployed only in the downward direction is not harmonization; it is a one-way ratchet toward the lowest common denominator.

The SRC urges the Agencies to treat the capital strength of the U.S. banking system as the strategic asset the market evidence shows it to be, and to analyze the competitive cost of surrendering that asset before finalizing any of the Proposals.

III. The claimed lending benefits are speculative, unquantified, and contradicted by banks’ revealed behavior.

One of the principal justifications offered for the Proposals is that reducing capital requirements will expand lending.⁸ Yet again, market evidence contradicts these claims. The actions of the banks offer strong indications that banks are likely to use any loosening to return capital to shareholders through buybacks and dividends, and the express statements of their executives indicate they will continue to optimize to reduce capital requirements, which would not redound to the benefit of lending to the real economy (See Section V. for further discussion).⁹ The Agencies do not attempt to quantify expected lending increases at the GSIBs and where it is quantified in the SA Proposal, they broadly acknowledge that the estimates are likely overstated.

In response to the loosening of capital requirements in the last year, banks have returned unprecedented amounts of capital to shareholders. In the first quarter of 2026, U.S. banks executed a record \$33 billion in share repurchases, with JPMorgan Chase, Goldman Sachs, and Citigroup each completing their largest quarterly buybacks ever and realized repurchases

⁸ *See, for example*, “[The Agencies] expect the [ERBA] proposal would support the safety and soundness of covered banking organizations and U.S. financial stability while promoting lending and other financial intermediation activities in the banking system over a range of economic conditions.” Expanded Risk-Based Approach NPR, 91 Fed. Reg. 14952, 14952 (Mar. 27, 2026), and that the reduction in corporate risk weights from 100% to 65% has “the potential for banks to pass some capital relief to borrowers in the form of reduced borrowing costs or increased credit availability for investment-grade corporations” and “may encourage lending to financially sound corporations.” *Id.* at 15138.;

See also, “[the GSIB surcharge reduction] would likely reduce GSIBs’ marginal funding costs, which could enable some GSIBs to increase their economic activities and supply of financial services, which could in turn increase aggregate economic surplus.” Board of Governors of the Federal Reserve System, Notice of Proposed Rulemaking, Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies (Mar. 19, 2026), at 85 (“GSIB Surcharge NPR”).

⁹ *See, for example*, Jamie Dimon discussing the Proposals on 1Q26 earnings call, “I’ll add one other thing. We will obviously use our brainpower to do something I don’t like doing, which is trying to find a lot of ways to serve our clients properly and reduce the GSIB charge, which is usually called arbitrage. So, I’m not sure the outcome is great for the system, but we will find ways to do it.” JPMorgan Chase & Co., First Quarter 2026 Earnings Call Transcript, April 14, 2026,

<https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/quarterly-earnings/2026/1st-quarter/1q26-earnings-transcript.pdf>.

exceeding analyst projections by 30 to 50 percent.¹⁰ Goldman Sachs alone returned \$6.38 billion to common shareholders in the quarter.¹¹ No GSIB used its first-quarter results to announce an expansion of lending to households or businesses.

The behavior of community banks offer further evidence to this point. Community banks are much more highly capitalized with Tier 1 leverage ratios of 10.89 percent, against 6.81 percent for the U.S. GSIBs.¹² Yet community banks lend the most to the real economy, on a relative basis. Thus the contention that higher capital requirements compete with lending activity is not borne out by the evidence.

Finally, to the extent the Proposals do stimulate lending, the relative risk weights and returns will determine where that lending will flow. As discussed in greater detail below, the Proposals generally deepen the incentives to lend to NBFIs (Section V.) and trading book activities (Section VII.). The Agencies should attempt to quantify this benefit before relying on it as support for any cost-benefit analysis.

IV. The economic data is outdated and the economic analysis is inadequate for a rulemaking of this significance.

The Proposals' impact analysis rests heavily on the Special Data Collection conducted by the Board in late 2023 in connection with the earlier, materially more stringent July 2023 capital proposal. The Agencies themselves acknowledge that "[t]he differences between the current proposal and the proposal on which the special data collection was intended to inform are broad and material."¹³ Despite this acknowledged mismatch, the Agencies proceed to rely on a data collection that captured respondents' exposures as of June 30, 2023 — nearly three years before the comment deadline for these Proposals.

While we appreciate the Agencies' efforts to adjust the 2023 collection data to reflect the current Proposals' differences and a 2026 baseline, we note with concern that the Agencies relied in part on impact estimates from industry comment letters to fill gaps in the data. And despite these efforts, the Agencies themselves acknowledge that the adjustments "in many cases are only approximations and may not account for all material differences between the current proposal and the 2023 proposal."

¹⁰ Joshua Franklin and Akila Quinio, "Largest US banks spend record \$33bn on share buybacks" *Financial Times*, April 15, 2025, <https://www.ft.com/content/67d444ab-bfcf-49a1-ae46-ff6e78bc8c64?syn-25a6b1a6=1>.

¹¹ Goldman Sachs Group, Inc., Goldman Sachs Reports First Quarter 2026 Earnings Results, press release, April 13, 2026, <https://www.goldmansachs.com/pressroom/press-releases/current/pdfs/2026-q1-results.pdf>. (reporting \$6.38 billion of capital returned to common shareholders in the first quarter of 2026, comprising \$5.00 billion of common share repurchases and \$1.38 billion of common stock dividends).

¹² Bank Capital Analysis Semiannual Update, 4Q 2025 (Federal Reserve Bank of Kansas City).

¹³ ERBA Proposal at 15109.

This reliance is problematic in multiple respects. The 2023 special data collection was calibrated to a predecessor proposal that would have increased capital requirements for the largest banks. The current Proposals move in the opposite direction across a broad range of categories. The Proposals are also set against a financial environment that has changed materially since the 2023 data was collected, and those changes are not reflected in the Agencies' analysis.

Geopolitical risk and associated supply chain disruptions have materially elevated macroeconomic uncertainty relative to mid-2023. Credit spreads and equity volatility, while not at crisis levels, have widened meaningfully from their 2023 lows.¹⁴ Global equity market speculation, concentration and valuations, particularly in technology and artificial intelligence-adjacent sectors, have risen to historically elevated levels relative to earnings. Concentration risk in bank lending portfolios has increased commensurately, as banks compete aggressively to finance the data center infrastructure and corporate credit needs of a small number of large technology firms.¹⁵

Critically, the 2023 data collection also misses the rapid growth in bank exposures to NBFI counterparties that has occurred over the intervening period.¹⁶ In a May 2026 speech on the migration of corporate lending, Vice Chair for Supervision Bowman acknowledged the challenge directly, noting that regulators currently lack the data necessary to understand the full extent of bank exposures to NBFI counterparties and that stress tests may not be appropriately calibrated without that transparency.¹⁷ Regulators must have visibility into these relationships before finalizing any changes that would affect the incentives surrounding these relationships.

The Agencies also explicitly acknowledge that their analysis does not account for the behavioral responses of regulated institutions to the proposed changes, notwithstanding robust evidence that

¹⁴ See, for example, MUFG, *Chart of the Day: Modest Credit Spread Widening and Dispersion*, December 22, 2025, https://www.mufgamericas.com/sites/default/files/document/2025-12/Chart_of_the_Day_12_22_Modest_Credit_Spread_Widening_and_Dispersion.pdf.

¹⁵ See, Jill R Shah and Michelle Chan, "Banks seek to offload risk to avoid 'choking' on data centre debt," *Financial Times*, May 3, 2026, <https://www.ft.com/content/08aba5e4-5834-4e79-a48d-989a2c5bad0f?syn-25a6b1a6=1>

¹⁶ Moody's, "US Banks' Private Credit Loan Exposure Nears \$300 Billion," data story, Moody's, October 2025, <https://www.moodys.com/web/en/us/insights/data-stories/breakdown-of-banks-annual-reporting-on-private-credit.html> (reporting private credit assets under management are estimated to have grown from approximately \$1.5 trillion at year-end 2022 to over \$2 trillion by mid-2025).

See also, Sergey Chernenko, Robert Ialenti, and David S. Scharfstein, "Bank Capital and the Growth of Private Credit" (June 19, 2024), SSRN, <https://ssrn.com/abstract=5097437> (documenting growth in bank lending to private credit funds as a proportion of total NBFI lending).

¹⁷Michelle W. Bowman, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, "The Migration of Corporate Lending," Remarks at the Hoover Institution Annual Monetary Policy Conference, Stanford, California (May 8, 2026), available at <https://www.federalreserve.gov/newsevents/speech/bowman20260508a.htm>.

banks optimize their activities to minimize capital charges.¹⁸ This omission is significant because many of the most consequential systemic effects of the Proposals — including incentives to engage in NBFIs lending, synthetic risk transfers, and specific activities in the trading book — will manifest precisely through such behavioral adjustments.

The Agencies also present sweeping claims that the Proposals provide "better measures of systemic risk" and enhance "risk sensitivity" in the framework. These claims conflate two distinct concepts. Risk sensitivity — the more granular attribution of capital to specific risk categories — is not the same as systemic risk measurement. A framework can be highly risk-sensitive in a relative sense while producing aggregate capital levels that are insufficient in absolute terms. The Proposals do not engage seriously with the latter question. Any comprehensive analysis of systemic risk adequacy must consider overall capital levels relative to the full distribution of potential losses in the system, including tail scenarios in which correlations that appear benign in normal conditions converge toward one. The research literature points the other way: studies place the loss-absorbing capital needed to prevent most historical banking crises well above current levels — on the order of 15 to 23 percent of risk-weighted assets — and U.S. requirements already sit toward the low end of that optimal range, where the costs of holding too little capital are steep and asymmetric. The Agencies have not demonstrated that the banking system is over-capitalized.¹⁹

The SRC also wishes to address directly the suggestion advanced by some commenters that the same dollar of capital can simultaneously serve as a cushion against multiple independent risks.²⁰ The definition of a systemic crisis is precisely the scenario in which assumed correlations collapse and diversification benefits disappear. The Agencies should not rely on stress tests — which have themselves been materially loosened over recent years — as a substitute for adequate statutory capital. Stress tests are calibrated to supervisory scenarios that are, by construction, backward-looking and do not fully capture novel tail risks. They are a complement to, not a replacement for, robust minimum capital requirements.

¹⁸ See, for example, JPMorgan Chase & Co., 1Q26 Earnings Call Transcript (Apr. 2026)

¹⁹ See Jihad Dagher et al., "Benefits and Costs of Bank Capital," IMF Staff Discussion Note 16/04 (Mar. 2016) (estimating that capital of 15 to 23 percent of risk-weighted assets would have absorbed the losses in most historical banking crises in advanced economies).

²⁰ See Greg Baer, Oral Testimony Before the U.S. House Committee on Financial Services (Apr. 28, 2026).

V. Bank-NBFI interconnections represent an under examined and growing potential source of systemic risk and the Proposals deepen incentives for that type of activity.

The Proposals devote considerable attention to the competitive position of regulated banks relative to the NBFI sector, citing banks' loss of market share in mortgage and corporate lending as a principal justification for the proposed capital reductions. Yet the Proposals are almost entirely silent on the ways in which regulated banks and bank regulations have fueled the growth of NBFI, and on the systemic consequences of the deep and growing financial linkages between the two sectors.

Visibility into these relationships is limited but there are several known channels through which banks have exposure to NBFI. Taking a Private Credit fund as an example, a bank may engage in the following types of financing²¹:

- **Investor lending.** Loans directly to the private credit manager.
- **Subscription lines.** Lines of credit provided, secured by funds committed by limited partners but not yet “called” (i.e. deployed).
- **NAV financing.** Lend to the private fund, backed by the value of its assets.
- **Back leverage.** Fund assets are moved into a bankruptcy-remote Special Purpose Vehicle (SPV), banks lend to the SPV against the value of the assets. The SPVs tend to be highly overcollateralized so banks hold a ‘senior, secured position,’ allowing them to reduce their risk weights.
- **Warehouse lending.** Banks provide lines of credit to managers while they are in the process of gathering and bundling assets to be securitized.
- **Significant Risk Transfers (SRTs).** Banks sell risk off their books (in other words, buy downside risk protection), often to/from NBFI.²² In some cases banks *also* lend to NBFI with SRT assets provided as collateral. SRTs in general and this roundtripping activity in particular are significant sources of potential risk.²³

These types of financing are broadly encouraged by changes in the Proposals, with the exception of the updated treatment of undrawn credit lines. Specifically:

²¹ Ortenca Aliaj, Louis Ashworth and Eric Platt, “How banks fuel the private credit boom,” *Financial Times*, December 1, 2025, <https://www.ft.com/content/535b3d0c-429c-4e67-a73d-3513e4e730d8?syn-25a6b1a6=1>

²² Basel Committee on Banking Supervision, Synthetic Risk Transfers (Bank for International Settlements, February 2026), <https://www.bis.org/bcbs/publ/d607.pdf>. (noting that “[a] large majority of investors [in SRT transactions] are NBFIs, including private credit funds, investment/mutual funds, hedge funds, pension funds, sovereign wealth funds, regional and international development banks and insurance and reinsurance companies.”).

²³ CFA Institute Systemic Risk Council, Comment Letter on Credit Risk Transfer (CRT), letter to Jerome Powell, Chair, Board of Governors of the Federal Reserve System, September 18, 2024, <https://www.systemicriskcouncil.org/wp-content/uploads/2024/09/SRC-Comment-Letter-on-Credit-Risk-Transfer-CRT-18-September-2024.pdf>.

- **Investment-grade credit:** the risk weight for loans to borrowers that banks determine, through their own internal processes, to be “investment-grade” moves from the current 100% risk weight for corporate loans to 65%. Critically, this decrease also applies to assets underlying the securitized financing described below.
- **Securitization framework:** the securitization framework is what allows banks to take a much lower capital charge for lending to private credit than directly to companies, provided the bank’s tranche is sufficiently senior.²⁴ The current framework (SSFA) imposes a 20% risk-weight benefit floor.. The proposed framework (SEC-SA) would lower that floor to 15%. This reduction would work in conjunction with any reductions to the risk weights of the underlying assets, which would flow through the SEC-SA formula to increase the credit exposure of the senior tranche while remaining at the 15% risk weight floor.
- **Credit Conversion Factor (CCF):** undrawn but committed lines of credit that are “fully legally cancellable” are currently assigned a 0% risk weight. The proposal would *increase* that to 10%. Additionally,
- **Prepaid credit protection arrangements:** the rule provides formal treatment for risk transfers through prefunded arrangements like Credit Linked Notes (“CLNs”). Currently, such vehicles rely on interpretive guidance. Formalizing the process is expected to grow the market for such products.

In various places, the Proposals suggest that reducing capital requirements on regulated banks might help shift financial activities away from NBFIs and back within the regulatory perimeter. While some proposed changes may make mortgage lending or corporate lending, for example, marginally more profitable for banks, the Proposals do not address the existing significant incentive to lend to NBFIs rather than the real economy²⁵ nor the way the Proposals amplify that incentive. Nor do they address whether capital rules should incentivize lending to highly leveraged, risky corporate borrowers, whether directly or indirectly through financing private fund intermediaries.

More broadly, the NBFIs sector has been showing growing signs of weakness. The Financial Stability Board's May 2026 report on private credit and bank interlinkages concluded that private credit remains untested through a severe economic downturn and warrants close supervisory attention.²⁶ The scale of these linkages is large and poorly measured: bank credit commitments to nonbank financial entities reached over \$2.6 trillion in the second half of 2025, yet supervisors

²⁴ Sergey Chernenko, Robert Ialenti, and David S. Scharfstein, "Bank Capital and the Growth of Private Credit" (June 19, 2024), SSRN, <https://ssrn.com/abstract=5097437>.

²⁵ See Sergey Chernenko, Robert Ialenti, and David S. Scharfstein, "Bank Capital and the Growth of Private Credit" (June 19, 2024), SSRN, <https://ssrn.com/abstract=5097437>.

²⁶ Financial Stability Board, "Report on Vulnerabilities in Private Credit" (May 2026). Available at: <https://www.fsb.org/uploads/P060526.pdf>.

can currently document only roughly \$220 billion of direct bank exposure to private credit funds, with commercial estimates running several times higher.²⁷ These risks must be understood and analyzed before any relevant changes are finalized. If anything, the regulators should be considering changes to strengthen, not weaken, capital requirements against exposures to this opaque market.

VI. The GSIB Surcharge Proposal contains the most direct and significant capital reductions.

The GSIB surcharge proposal is the most significant source of direct capital reduction across the three Proposals. The Board estimates that the proposal would reduce aggregate GSIB surcharges by approximately ten percent, from \$235 billion to \$212 billion in aggregate dollar terms, with average surcharges falling by approximately 40 basis points across the eight current GSIBs. This reduction flows primarily from: a one-time downward adjustment to Method 2 systemic indicator coefficients by a factor of 1.2, a prospective indexing of those coefficients to nominal GDP growth, and a separate recalibration of the short-term wholesale funding ("STWF") score.

The Board's justification for these adjustments rests on the premise that changes in GSIB Method 2 scores should reflect changes in systemic risk profiles relative to the size of the U.S. economy rather than in absolute terms.²⁸ The premise deserves careful examination and in any case ignores the fact that regardless of GDP growth, GSIBs carry the unchanging systemic vulnerability of being Too Big To Fail. The 2015 adopting release for the GSIB surcharge framework was explicit that Method 2 — unlike Method 1 — was designed to measure each U.S. GSIB's systemic importance based on the absolute dollar amounts of its systemic indicator values, without normalization to global aggregate indicator amounts. The Board chose fixed coefficients precisely to provide "more certainty regarding the actions that a U.S. GSIB could take to reduce its GSIB surcharge, so that a firm's method 2 score would be affected only by its own systemic indicators rather than by both its own systemic indicators and the aggregate level of systemic

²⁷Financial Stability Board, Report on Vulnerabilities in Private Credit (May 6, 2026) (reporting that available data capture roughly \$220 billion of drawn and undrawn bank credit exposures to private credit funds across FSB jurisdictions, with commercial estimates ranging to approximately \$500 billion, underscoring the data gaps surrounding bank-NBFI linkages).

²⁸GSIB Surcharge NPR, 91 Fed. Reg. 14908, 14918 (Mar. 27, 2026) ("[C]hanges in method 2 scores should reflect changes in systemic risk profiles relative to the size of the U.S. economy rather than in absolute terms."). The Board's own 2015 adopting release acknowledged this limitation and committed to periodic review: "[T]he Board acknowledges that over time, a bank holding company's method 2 score may be affected by economic growth that does not represent an increase in systemic risk. To ensure changes in economic growth do not unduly affect firms' systemic risk scores, the Board will periodically review the coefficients and make adjustments as appropriate." Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 Fed. Reg. 49082, 49085 (Aug. 14, 2015).

indicators of a set of global firms." Indexing those coefficients to GDP growth undermines this design by reintroducing a relative benchmark through the back door — and one that is not tied to the systemic risk of the banking sector at all.

The assertion that the systemic risk posed by a given financial institution is properly measured relative to nominal GDP — rather than in absolute terms — is a strong empirical claim for which the Agencies provide no supporting evidence. A GSIB with \$3 trillion in assets does not become less systemically dangerous because nominal GDP has grown; the loss-absorbing capacity required to prevent its distress from triggering systemic contagion is a function of the absolute scale of its interconnections and obligations, not their ratio to output.

The inadequacy of relative measurement is illustrated by the failure of Silicon Valley Bank in March 2023. SVB fell far below the GSIB designation threshold in terms of both size and systemic score, and its regulatory capital ratios were well above minimum requirements — with a CET1 ratio of approximately 12 percent at year-end 2022, some 200 basis points above the large banking organization peer average, and a Tier 1 capital ratio of approximately 15 percent. Yet its failure triggered contagion across the regional banking sector and, in the judgment of regulatory authorities, necessitated extraordinary government intervention. The SVB episode illustrates that neither the GSIB scoring threshold nor the level of risk-weighted capital ratios provides reliable protection against systemic consequences when a firm's balance sheet structure is misaligned with the risk the capital framework purports to measure. The same structural insight applies at larger scale: a GSIB's systemic significance derives from its absolute interconnections, not its size relative to GDP.

The proposed indexing mechanism compounds this concern. The Board proposes to adjust Method 2 coefficients annually based on a three-year moving average of nominal GDP growth, with a floor of zero (i.e., no reduction in coefficients during periods of economic contraction). This asymmetric ratchet will, over time, produce a systematic and compounding reduction in the effective stringency of Method 2 surcharges relative to a stable nominal baseline. The Board acknowledges that this choice "could reduce the potential for procyclicality in capital requirements during a prolonged period of economic contraction" — but the price of that feature is a framework that permanently erodes capital requirements during expansions and cannot restore them during contractions.

The proposal also reduces Method 2 surcharge increments from 50 basis points to 10 basis points by narrowing score bands from 100-point increments to 20-point increments.²⁹ While this change reduces cliff effects at the margin, it also reduces the marginal incentive for a GSIB to reduce its systemic footprint below a given score threshold. This is particularly concerning with respect to short-term wholesale funding, where the recalibration of the STWF coefficient reduces Method 2

²⁹GSIB Surcharge Proposal at 14920-21.

scores by an estimated 14.6 percent.³⁰ We note the particular challenge of reducing the capital surcharge attributable to short-term wholesale funding when the procyclical amplification of financial stress through wholesale funding markets remains a central concern of macroprudential policy.³¹

The Agencies propose to expand the interconnectedness category of systemic indicators to include ETFs, private equity firms, and similar asset management functions. We support this directional change but urge the Agencies to expand the definition further to explicitly capture private credit funds rather than relying on an interpretation of the catch-all reference to "other asset management entities that engage in similar activities," as would be necessary under the current drafting. The Agencies should also ensure that both sides of synthetic risk transfer ("SRT") transactions are captured in the interconnectedness measure, including both the bank's position as a purchaser of credit risk protection and its position as a lender against SRT collateral.

Finally, the SRC notes that the proposal removes the "ultimate risk basis" from the calculation of cross-jurisdictional claims without discussion or analysis.³² This change affects how GSIBs' international exposure is measured and could significantly alter cross-jurisdictional activity scores for institutions with complex international balance sheets. No explanation is offered for this definitional change and no quantitative impact is presented.

VII. The single-stack ERBA framework violates the Collins Amendment and years of regulatory precedent.

The most significant structural feature of the Expanded Risk-Based Approach ("ERBA") proposal is its adoption of a "single-stack" framework for Category I and II banking organizations. Under the current risk-based capital framework, advanced approaches institutions must calculate capital ratios under both the standardized approach and the advanced approaches, and use the lower ratio for each measure to determine compliance — the so-called "dual-stack" requirement. The Proposals eliminate this requirement for Category I and II firms and replace it with a single set of calculations under the ERBA.

³⁰GSIB Surcharge Proposal at 14916.

³¹ See, for example, Michaël Dewally and Yingying Shao, "Leverage, wholesale funding and national risk attitude," *Journal of International Financial Markets, Institutions and Money*, Volume 23, February 2013, Pages 179-195, <https://www.sciencedirect.com/science/article/abs/pii/S1042443112000881>.

³²GSIB Surcharge Proposal at 14930. The proposal removes the "ultimate risk basis" from the calculation of cross-jurisdictional claims, which previously required that claims be allocated to the jurisdiction of the ultimate obligor. No policy rationale is offered for this change, and no quantitative impact estimate is provided on a bank-by-bank basis. The SRC is concerned that without public comment on such a definitional change, the record is insufficient to support finalization.

Section 171(b)(2) of the Dodd-Frank Act, known as the Collins Amendment, states that minimum risk-based capital requirements "shall not be less than the generally applicable risk-based capital requirements, which shall serve as a floor for any capital requirements that the agency may require, nor quantitatively lower than the generally applicable risk-based capital requirements that were in effect for insured depository institutions as of the date of enactment of this Act."³³ The plain text of this provision requires that the standardized approach serve as a floor. In *Loper Bright Enterprises v. Raimondo*, the Supreme Court eliminated *Chevron* deference, directing courts to conduct an independent review of statutory text rather than deferring to agencies' interpretations.³⁴ This significantly constrains the Agencies' latitude in ascribing new meaning to this longstanding statutory command.

The 2013 final rule implementing the current dual-stack requirement reflects the Agencies' prior, considered interpretation of this statutory mandate. In that rulemaking, the Agencies stated explicitly that an advanced approaches banking organization:

"must determine its minimum risk-based capital requirements . . . under the standardized approach and, separately, total risk-weighted assets under the advanced approaches. The lower ratio for each risk-based capital requirement is the ratio the banking organization must use to determine its compliance with the minimum capital requirement."

Now the Agencies seek to reinterpret the rule with virtually no discussion or analysis. The Collins Amendment is referenced only in a footnote supporting an assertion that the standardized approach is usually the binding constraint.³⁵ The 2013 final rule that implemented the dual-stack approach is not mentioned.

The parallel Basel III output floor — which requires that the modeled approach cannot produce capital requirements below 72.5 percent of the standardized approach — receives similarly perfunctory treatment. Its most prominent appearance in the Proposals is in a question acknowledging that "[t]he proposal would not include this output floor because proposed

³³Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 171(b)(2), 124 Stat. 1376, 1435 (2010) (codified at 12 U.S.C. § 5371(b)(2)).

³⁴ *Loper Bright Enterprises v. Raimondo*, 603 U.S. 369 (2024). The Court held that courts must exercise independent judgment when determining the meaning of statutes that agencies administer, overruling *Chevron U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837 (1984).

³⁵ ERBA Proposal at 15290 n.738 (citing the Collins Amendment only in a footnote in support of the assertion that the standardized approach is "usually the binding constraint," without legal analysis of whether the single-stack framework satisfies the statutory floor requirement). The 2013 final rule that implemented the dual-stack requirement is not cited or discussed.

requirements would be almost completely standardized and, therefore, the output floor would be unlikely to bind in most situations."³⁶

The retention of model-based measures for market risk in this context is especially problematic. The proposal not only removes the output floor applicable to model-based market risk requirements — a backstop expressly required by the Basel III accord and that U.S. negotiators pressed for during the international negotiations — but effectively inverts that backstop by allowing supervisor-approved caps on modeled market risk capital. The stated justification is that modeled risk calculations may be excessive relative to actual risk. This reasoning is precisely backwards from the perspective of systemic risk: the point of a floor, as opposed to a ceiling, is to prevent models from being engineered to produce artificially low capital charges. A cap achieves the opposite.

In our view, this lack of legal or economic analysis violates the requirements of the Administrative Procedure Act, which require that agencies provide a reasoned explanation for significant departures from prior regulatory interpretations. The Collins Amendment and Basel output floors were adopted based on extensive, post-2008 studies showing that banks' use of their internal models in setting risk-based capital requirements led to excessive leverage and wide variations in the capital treatment of similar risk exposures. The regulators are ignoring key lessons of the 2008 financial crisis.

VIII. Conclusion

The SRC respectfully urges the Agencies to delay any further action on bank capital until a more fulsome picture of the relevant systemic risks can be developed. The combination of materially stale economic data, absent behavioral response analysis, unquantified systemic effects from bank-NBFI interconnections, a procedurally questionable single-stack approach under the Collins Amendment, and a capital trajectory that is negative at a moment of elevated financial risk does not meet the standard of reasoned rulemaking that the public interest demands. The SRC stands ready to engage with the Agencies and their staff on any of the issues raised in this letter and would welcome the opportunity to discuss them in more detail.

Respectfully submitted.

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Co-Chair

³⁶ ERBA proposal at 14982.

Note: The views expressed herein represent the collective views of the SRC and not all members agree with all aspects of this comment letter.

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