June 18, 2026

Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW, Washington, DC 20551

Jennifer M. Jones
Deputy Executive Secretary
Attention: Comments/Legal OES (RIN 3064–AF29); Comments—RIN 3064-AG23
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, DC 20219

Re: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations; Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets

Federal Reserve: Docket No. R-1887, RIN 7100-AH20; Docket No. R-1888, RIN 7100-AH21
FDIC: RIN 3064-AF29; RIN 3064-AG23
OCC: Docket ID OCC-2026-0265, RIN 1557-AF52; Docket ID OCC-2026-0034, RIN 1557-AF49

Dear Sir/Madam,

The International Swaps and Derivatives Association, Inc. ("**ISDA**"), the Securities Industry and Financial Markets Association ("**SIFMA**") and the Institute of International Finance ("**IIF**" and, together with ISDA and SIFMA, the "**Associations**") welcome the opportunity to comment on the proposal referenced above in respect of Category I and II banking organizations, banking organizations with significant trading activity and optional adoption for other banking organizations (the "**Proposal**") issued by the Board of Governors of the Federal Reserve System (the "**Federal Reserve**"), the Federal Deposit Insurance Corporation (the "**FDIC**") and the Office of the Comptroller of the Currency (the "**OCC**" and, collectively

with the FDIC and the Federal Reserve, the "**Agencies**").[1] This letter highlights issues arising from the Fundamental Review of the Trading Book ("**FRTB**" or "**market risk**"), credit valuation adjustment ("**CVA**") risk and, with respect to counterparty credit risk ("**CCR**"), aspects of the Proposal relating to securities financing transactions ("**SFTs**") and derivatives, including the standardized approach for counterparty credit risk ("**SA-CCR**").[2]

Executive Summary

The Associations appreciate the Agencies' efforts to modernize and improve the risk sensitivity of the regulatory capital framework for large banking organizations and firms with significant trading activities. The Associations particularly support the Agencies' principles-based consideration of the overall calibration of regulatory capital requirements, including taking into account the effects of the stress capital buffer.[3] The current proposal reflects a constructive step forward in several respects, particularly by recognizing the importance of calibration for capital markets and trading activities.

The benefits of appropriately calibrated regulatory capital requirements extend well beyond the prudential regulation of the covered firms themselves. The calibration of the regulatory capital framework directly affects the pricing, availability and structure of market intermediation, client hedging, financing and liquidity services provided by large banking organizations. Capital requirements that are more risk sensitive promote the efficient functioning of U.S. capital markets (including the market for U.S. Treasury securities), reduce costs for end users seeking to hedge or finance positions, and better support market liquidity.

To better achieve these benefits, the final rule should build on the progress reflected in the Proposal by more accurately aligning capital requirements with underlying economic risk, properly recognizing hedging and netting, and supporting prudent risk management and broader public policy objectives.

The Associations' quantitative impact study ("**QIS**") and the technical analysis set out in this letter indicate that several aspects of the Proposal would produce outcomes that are not sufficiently aligned with economic risk. The recommendations in this letter are intended to

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1 Federal Reserve, FDIC, OCC, 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 (Mar. 27, 2026). This comment letter also references aspects of the separate proposal regarding the risk-based capital treatment under the standardized approach. Federal Reserve, FDIC, OCC, Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15,332 (Mar. 27, 2026) (the "**Standardized Approach Proposal**").

2 With respect to the proposed changes to the securitization framework, our members broadly support the recommendations provided in the comment letter submitted by the Structured Finance Association.

3 91 Fed. Reg. at 14,955.

improve the Proposal's overall risk sensitivity while preserving the safety and resilience objectives of the capital framework.

QIS results. The QIS was conducted with input from the eight U.S. global systemically important banks ("**GSIBs**"). The results of the QIS show:

- an increase of 89 percent[4] in market risk RWA under the proposed FRTB standardized approach ("**FRTB-SA**") (full portfolio) and 30 percent[5] under the proposed FRTB internal models approach ("**FRTB-IMA**") and FRTB-SA (assuming current model approvals such that part of the portfolio is determined using FRTB-IMA and the remainder using FRTB-SA) when comparing the proposed FRTB to the current capital rules.

- Unlike the current standardized approach, which is generally the binding capital constraint, the proposed expanded risk-based approach ("**ERBA**") includes CVA RWAs, such that CVA RWA adds in full to the binding capital constraint for banking organizations applying ERBA.

Implementation timeline. The required implementation date should be no earlier than January 1, 2028, with an ability to early adopt, and a final rule should include transition provisions to facilitate use of market risk and CVA risk models-based approaches.[6]

Recommendations. The substantive issues discussed in the body of this letter generally relate to the following themes:

Theme 1: Enhancing risk sensitivity. Several components of the Proposal would not appropriately reflect underlying risks or would insufficiently recognize hedging and diversification.

- ***Extended SA-CCR.*** The exposure calculation for cross-product netting under the Proposal would not sufficiently recognize the risk-reducing benefits of cross-product netting. In addition, the scope of positions eligible for extended SA-CCR should be expanded to include eligible margin loans and cleared transactions because qualifying cross-product netting sets covering these transactions also reduce overall risk.

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4 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_01.

5 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_02.

6 The Associations support the recommendations regarding implementation timelines provided by the Bank Policy Institute, the American Bankers Association, the Financial Services Forum, the U.S. Chamber of Commerce and the Consumer Bankers Association (the "**BPI/ABA/FSF/USCC/CBA Letter**").

- ***FRTB treatment of term repo-style transactions.*** The proposed treatment of term repo-style transactions under the FRTB is not commensurate with underlying risk. Requiring separate FRTB default risk capital ("**FRTB-DRC**") calculations for losses associated with the collateral to account for issuer default risk would be inconsistent with the stated intent of retaining the treatment under the current U.S. capital framework and would make the inclusion of term repo-style transactions in market risk practically unworkable. The methodology should therefore maintain the existing approach.

- ***FRTB Default Risk Capital Requirements.*** The Associations support the FRTB-DRC framework's objective of risk sensitivity. However, the QIS shows that FRTB-DRC represents 51 percent[7] of market risk capital for FRTB-SA and FRTB-IMA (assuming current model approvals). Given tail risk is empirically driven by spread moves already captured in the sensitivities-based method ("**SBM**") or expected shortfall ("**ES**"), the framework can materially overstate incremental default jump risk. The Associations therefore propose the following targeted adjustments to better align FRTB-DRC capital requirements with net jump-to-default ("**JTD**") exposure:

    - The proposed FRTB-DRC requirements would overstate the risk of short-dated equity derivatives that hedge longer-dated equity exposures by narrowly limiting the maturity alignment provisions to cash hedges. Banking organizations should be permitted to assign a maturity of 3 months to equity derivative exposures.

    - For correlation trading positions, the FRTB-DRC requirements should be revised to simplify the conditions and mechanisms to better reflect the economics of hedging activities through decomposition.

    - Certain non-U.S. sovereign exposures should be subject to exclusions to improve consistency with the credit risk framework and current market risk treatment and comparability across firms.

    - The risk sensitivity of the FRTB-DRC aggregation formula should be improved by applying a modified hedge benefit ratio formula.

    - For undecomposed equity positions in investment funds, the FRTB-DRC risk weights should be reduced and the available approaches for these exposures should be expanded.

- ***FRTB-IMA.*** Type A non-modellable risk factors ("**NMRFs**") should be capitalized using solely the ES methodology because applying the SES

[7] See Appendix 1 – Quantitative Impact Study Results, Index FRTB_03.

methodology to Type A NMRFs would not appropriately recognize diversification benefits and would result in an over calibration of capital requirements given that Type A NMRFs satisfy data quality principles.

- ***CVA risk capital requirements.*** The risk buckets for the CVA risk capital requirements should distinguish between regulated and unregulated financial counterparties to enhance the risk sensitivity of the CVA risk framework. In addition, the CVA treatment of special purpose vehicle ("**SPV**") repack structures should be based on the underlying bonds to better reflect underlying economic risks and accounting treatment.

- ***Bankruptcy-remote collateral.*** Bankruptcy-remote collateral pledged to a third-party custodian should not be treated as an exposure for regulatory capital purposes given the lack of exposure to the counterparty under these structures.

Theme 2: Enhancing consistency across the capital rules. In several areas, the Proposal would create inconsistencies across the capital framework or depart from the intended treatment as reflected in the supplemental information to the Proposal.

- ***FRTB treatment of structured notes.*** The market risk covered position definition as applied to structured notes should be broadened and clarified.

- ***CVA risk applicability threshold.*** The $1 trillion threshold for application of CVA risk capital requirements should (i) be raised to $5 trillion, (ii) based on derivatives exposures excluding client-facing derivative transactions, consistent with the exclusion from CVA capital requirements for these transactions, and (iii) exclude affiliate derivative transactions.

Theme 3: Reducing unnecessary operational burdens. Several components of the Proposal would introduce operationally complex requirements that would not improve overall risk sensitivity.

- ***FRTB treatment of equity positions in investment funds.*** The third-party-calculation approach for equity positions in investment funds should be codified in the rules text and the available alternative approaches should be expanded.

- ***Model approval.*** Transition provisions for using market risk and CVA models should be adopted.

Technical clarifications and operational matters. In addition to these principal substantive recommendations, the Associations have identified several clarifications and operational matters that should be addressed in the final rule. The letter also responds to specific questions posed in the Proposal where further revisions or clarifications would improve risk sensitivity, operational feasibility and consistency across the broader capital framework.

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Conclusion

The Associations appreciate the opportunity to submit our comments on the Proposal. We are strongly committed to maintaining the safety and efficiency of U.S. financial markets and hope the Agencies implement our recommendations, which reflect the extensive knowledge and experience of market professionals within the Associations and our members. Our recommendations are designed to make the U.S. capital framework more risk sensitive in support of financial markets, consumers, end-users and the economy more generally. Please contact Lisa Galletta at lgalletta@isda.org or (917) 624-3411, Guowei Zhang at gzhang@sifma.org or (202) 962-7340 and Andres Portilla at aportilla@iif.com or (202) 378-6796 if you wish to discuss the points raised in this letter further.

Very truly yours,

Scott O'Malia	Kenneth E. Bentsen, Jr.	Timothy D. Adams
Chief Executive Officer	President and CEO	President and CEO
International Swaps and Derivatives Association, Inc.	Securities Industry and Financial Markets Association	Institute of International Finance

About the Associations

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

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

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

THE ASSOCIATIONS' RECOMMENDATIONS REGARDING THE PROPOSAL

I. SA-CCR

A. The calculation of exposure at default for qualifying cross-product master netting agreements requires significant revisions.

The Associations support recognizing the risk-reducing benefits of qualifying cross-product master netting agreements in the U.S. regulatory capital framework.[8] These agreements mitigate risk by allowing banking organizations to close out a customer's positions across derivatives and SFTs and calculate a single net amount owed by either party. Banking organizations obtain well-founded basis legal opinions confirming that these contractual rights are enforceable, including if a customer enters insolvency proceedings. The Associations welcome the consideration reflected in the Agencies' extended SA-CCR methodology ("**Extended SA-CCR Exposure Amount**") proposal, which would permit banking organizations to recognize the offsetting risk of repo-style transactions ("**RSTs**") and derivatives under a qualifying cross-product master netting agreement in the exposure at default ("**EAD**") calculation.

However, the proposed formula ("**EAD NPR**"[9]) would provide only limited recognition of the benefits of cross-product netting. This is particularly because the formula would assign relatively little weight to the Extended SA-CCR Exposure Amount, which reflects cross-product netting, and greater weight to the gross exposure, calculated as the sum of the standalone EAD amounts for SFTs and derivatives.

Under § __.113(b)(2), that weighting would be determined by the maturity ratio ("**MR**"). MR would be defined as the ratio of the notional-weighted average maturity of the SFTs and the greater of the notional-weighted average maturity of the SFTs and the derivatives. Conceptually, the rationale underlying MR appears to be to limit full recognition of cross-product netting benefits under the Extended SA-CCR Exposure Amount to portfolios where the average maturity of the SFTs is at least as long as that of the derivatives. In practice, however, this approach would materially understate the recognition of cross-product netting for typical portfolios, for which SFTs are often overnight or otherwise short-dated, whereas derivatives (e.g., futures) generally have maturities of at least three months. As a result, for a typical portfolio involving overnight repo-style trades hedged with 3-month to 6-month futures, the MR would typically fall in a range of approximately 8 percent to 16 percent, such that even where

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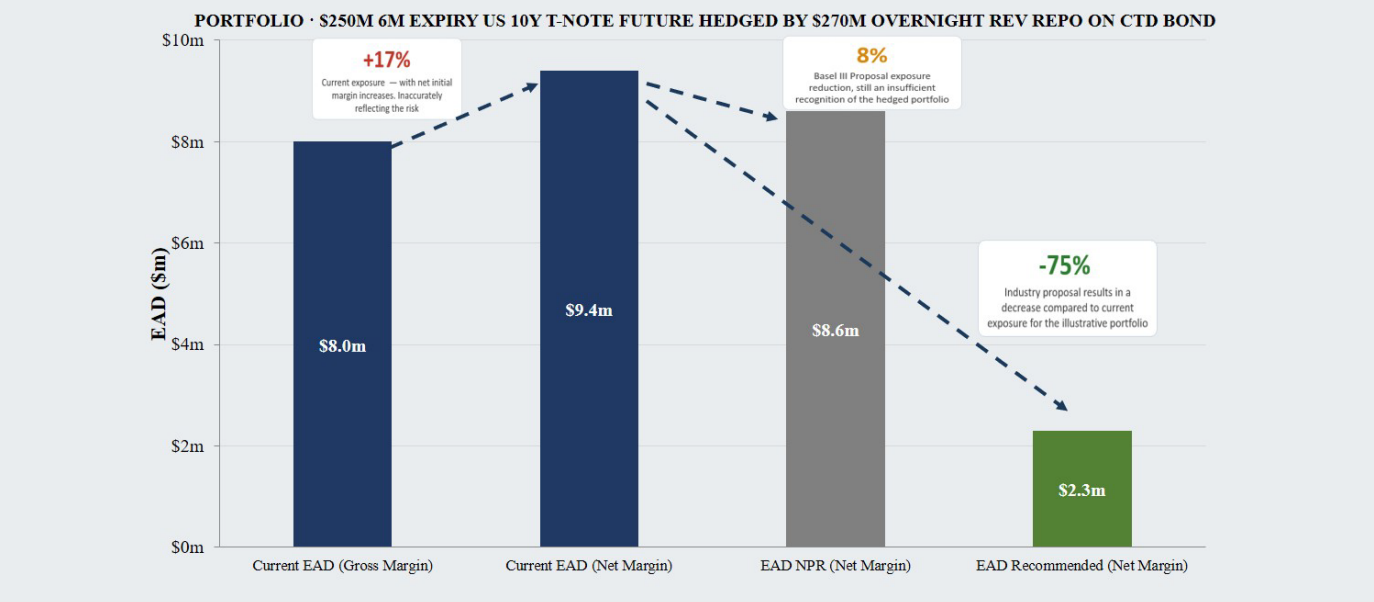
[8] The recommendations regarding qualifying cross-product master netting agreements also apply in respect of the Standardized Approach Proposal. 91 Fed. Reg. at 15,344.

[9] $ExposureAmount_{NSCP} = (1 - MR_{NSCP}) * (ExposureAmount_{RST} + ExposureAmount_{derivatives}) + MR_{NSCP} * Extended\ SA - CCR\ Exposure\ Amount$

SFTs and derivatives are fully offsetting, the EAD NPR would be reduced only by 8 percent to 16 percent relative to the EAD under the current capital rule.

The limited recognition of cross-product netting under the EAD NPR is particularly concerning in light of increasing market use of cross-product margining solutions that are designed to promote more efficient use of collateral by offsetting risk exposures between repos and derivatives.[10] Absent a methodology that appropriately reflects the risk-reducing effects of cross-product netting, the lower margin requirements resulting from cross-product margining will result in materially higher capital requirements. This can be illustrated in the chart below of EADs on a sample risk-offsetting netting set in which the banking organization (i) is long $250 million of 10-year U.S. Treasury futures that have a maturity of six months and (ii) holds a $270 million overnight reverse repo referencing the cheapest-to-deliver U.S. Treasury for that futures contract.



The first column reflects a current EAD of $8.0 million, based on a standalone initial margin requirement of $2.2 million in total ("**gross margin**") for the derivative and SFT positions. The second column illustrates the lack of recognition in the current rule of cross-product risk offsets in a cross-margin portfolio: reducing the netting set initial margin amount from the gross margin level at $2.2 million to a "**net margin**" level at $0.6 million thereby increases the current rule EAD from $8.0 million to $9.4 million, or approximately 17 percent.

The third column shows the EAD using the Proposal's proposed cross-product netting formula, which, for the reasons discussed in the leading paragraphs of this section, results

[10] For example, DTCC and CME have recently expanded the benefits of their cross-product margining solutions to end-user clients.

in only an 8% reduction to $8.6 million relative to the increased level of Current EAD under the cross-margining scenario and is still greater than the Current EAD level under the gross margin scenario.

Therefore, the EAD NPR result materially overstates the exposure in balanced risk netting sets. Considering these shortcomings, the Associations have proposed a revised methodology ("**EAD Recommended**") to recognize cross-product netting, shown in the fourth column. This recommended approach would significantly improve the recognition of netting in this relatively balanced portfolio and produces an EAD of $2.3 million, which is 75% lower than the Current EAD with net margin.

Structurally, the EAD Recommended formula would closely align with the EAD NPR formula except for the introduction of an adjustment factor, referred to as the hedge coverage ratio ("**HCR**"), which would be applied against the standalone $ExposureAmount_{SFT}$ term as follows:

$$EAD\ Recommended = MR * (Extended\ SA - CCR) + (1 - MR) * (ExposureAmount_{Derivatives} + ExposureAmount_{SFT} * HCR)$$

Where:

$$HCR = \max\left(\frac{\max\left(A_{Extended-SACCR}, A_{SFT}\right) - A_{Derivatives}}{A_{SFT}}, 0\right)$$

With the condition:

$$HCR = 0\ when\ A_{SFT} = 0$$

In the recommended HCR formula, the term *A* refers to the aggregated amount defined in § __.114(g)(2) of the proposed rules text. For this purpose, A_{SFT} would equal the aggregated amount attributable to all securities collateral in the cross-product netting set, treated as forward sale or forward purchase derivatives, as applicable.

The Associations acknowledge that, in SFT-dominant portfolios where SFTs are not fully offset by derivatives, an approach that includes only $ExposureAmount_{Derivatives}$ in the (1 – MR) range could understate exposure because the SFT risk would be captured only through the $MR * (Extended\ SA - CCR)$ term. However, it is overly conservative to always require a standalone SFT requirement in the (1 – MR) range regardless of the relative risk factor amount and netting portfolios between the SFT and derivative transactions. Specifically, when the SFT risk is already significantly offset by derivatives, it is not appropriate to require a standalone SFT capital charge for the entirety of the SFT portfolio in the (1-MR) range.

To properly control the extent to which the SFT-dominant risks should be accounted for, the Associations recommend the introduction of a new HCR term. The HCR measures the extent to which the risk of the entire portfolio ($A_{Extended-SACCR}$) or the standalone SFT risk (A_{SFT}) exceeds the standalone derivatives risk ($A_{Derivatives}$). A positive difference indicates the extent to which SFT risk is greater than the derivatives risk or is not otherwise offset by the derivative portfolio. In the example underlying the graph above, the HCR produces a substantial reduction because the degree of SFT-dominance is limited: the SFT notional exceeds the derivative notional by only $20 million relative to its total exposure of $270 million.

In addition, there is conservatism in the calibration under the "EAD Recommended" approach. In balanced risk-offsetting portfolios with a low MR, such as the example shown above, EAD is driven largely by the standalone derivatives exposure amount in the (1-MR) range. The (1-MR) range calculation is based on the net initial margin received under the cross-margined portfolio. In contrast, a standalone derivatives portfolio would be subject to gross initial margin on the standalone derivative portfolio resulting in a materially lower exposure level for the same maturity range. The definition of MR under the Proposal reflects a simplifying assumption that short-dated SFTs such as overnight repos would not be rolled. In practice, that assumption is unrealistic because, if the repo were not rolled, the derivative would likely be terminated or, alternatively, the initial margin requirement would increase in tandem with a rise of net trade exposure, as discussed above.

In addition to implementing this recommended formula, the definitions of V, C, and net independent collateral amount ("**NICA**") also should be clarified with respect to the treatment of RSTs and securities collateral. In particular:

- V should include only the fair value of the derivative contracts, consistent with its current definition under SA-CCR.

- C should reflect the net fair value of collateral received and posted within the cross-product netting set. To the extent securities collateral is already incorporated in the aggregated amount calculation of the $Extended\ SA-CCR$ and A_{SFT}, C should not reflect supervisory market price volatility haircuts, as that would result in double counting these haircuts.

- This same principle also applies to NICA.[11]

[11] The "Clarifications and Operational Matters" section also includes a discussion of supervisory delta under SA-CCR and the determination of maturity dates for purposes of MR.

B. The scope of positions eligible for extended SA-CCR should include eligible margin loans and cleared transactions because there is no principled basis for excluding them.

Under the Proposal, a banking organization may use extended SA-CCR for a netting set of transactions that are not cleared transactions and that are subject to a qualifying cross-product master netting agreement that includes one or more derivative contracts and one or more repo-style transactions. [12]

First, the scope of positions subject to a qualifying cross-product master netting agreement for which a banking organization may use extended SA-CCR should be expanded to include eligible margin loans. [13] Banking organizations currently have cross-product netting arrangements with customers that include eligible margin loans and, similar to repo-style transactions, eligible margin loans are collateralized by liquid and readily marketable securities. Based on the QIS, the fraction of the eligible margin loan population in total netting sets subject to qualifying cross-product master netting agreements is 66 percent [14] in terms of EAD and 67 percent [15] in terms of RWA. This demonstrates that cross-product netting agreements across eligible margin loans ("**EMLs**") and derivative contracts is common, and the assertion in the preamble to the Proposal that EMLs are not typically included in qualifying master netting arrangements is not empirically supported. [16] Applying the extended SA-CCR methodology to a qualifying cross-product master netting agreement that includes derivative contracts, repo-style transactions or eligible margin loans would provide more appropriate recognition of the risk-reducing benefits of these cross-product netting arrangements and would be consistent with existing broker-dealer portfolio margining arrangements that are recognized under FINRA Rule 4210(g).

Second, the extended SA-CCR methodology also should apply with respect to cleared transactions (between the clearing member and the central counterparty ("**CCP**")) that satisfy the requirements for a qualifying cross-product master netting agreement. Although there

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12 § __.113(a)(1)(ii).

13 91 Fed. Reg. at 14,985. *Question 43: What, if any, additional changes should be made to the scope of cross-product netting recognition under SA–CCR? For example, if the scope of cross-product netting recognition in SA–CCR were expanded to eligible margin loans, what would be the advantages and disadvantages of this expanded scope? What are the advantages and disadvantages of extending cross-product netting recognition in SA–CCR to cleared transactions?*

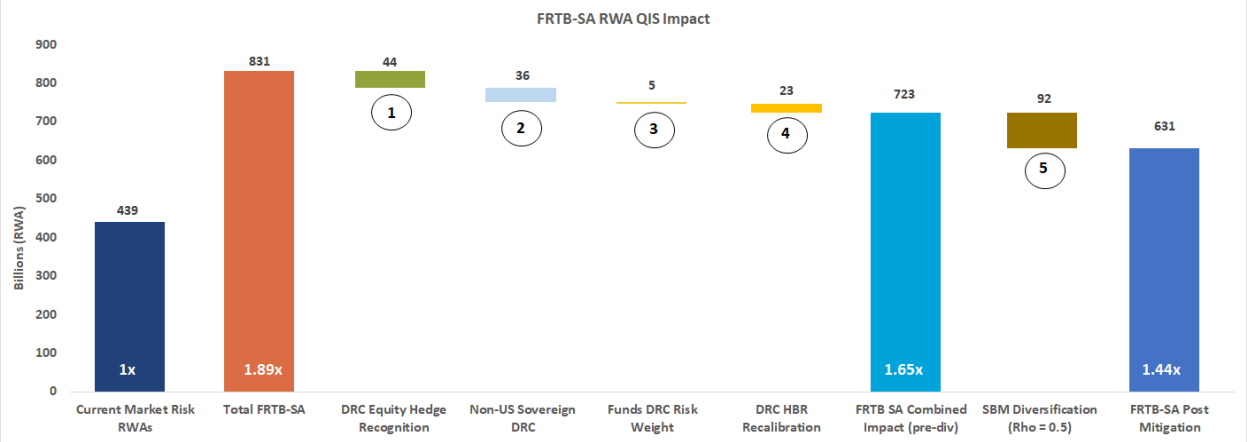
14 See Appendix 1 – Quantitative Impact Study Results, Index SACCR_01.

15 See Appendix 1 – Quantitative Impact Study Results, Index SACCR_02.

16 91 Fed. Reg. at 14,985 ("Although eligible margin loans have similarities to repo-style transactions, such as both being collateralized by liquid and readily marketable securities, they differ from repo-style and derivative transactions in that eligible margin loans are not typically included in qualifying master netting arrangements.").

are limited examples of these types of netting arrangements with one central counterparty to date, there is not a principled basis for excluding cleared transactions from the extended SA-CCR methodology to the extent that one or more CCPs implement these arrangements in the future.

II. Market Risk: General



Impact of Quantified FRTB-SA Mitigation Items:

1. **Equity hedge recognition in DRC**: Permitting banks to assign a maturity of 3 months to equity derivative exposures would lead to a $44 billion[17] RWA reduction.

2. **Sovereigns**: Excluding certain non-U.S. sovereign exposures, MDBs and supranationals from DRC would lead to a $36 billion[18] (of which $31 billion[19] is local currency emerging markets ("**EM**") sovereigns) RWA reduction.

3. **Treatment of funds**: Applying speculative grade treatment (22 percent DRC risk weight) to funds treated as a single equity exposure given the inability to look-through instead of the proposed sub-speculative equity treatment (50 percent DRC risk weight) would result in $5 billion[20] RWA reduction.

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17 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_04.

18 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_05.

19 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_06.

20 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_07.

4. **DRC HBR recalibration**: Improving the hedge benefit ratio ("**HBR**") formula to better recognize hedging between long and short positions would result in $23 billion[21] RWA reduction.

5. **FRTB-SA diversification**: Introducing an inter risk-class correlation parameter of 0.5 would result in a $92 billion[22] RWA reduction in total FRTB RWA assuming FRTB-SA is applied for all desks.

A. The proposed treatment of term repo-style transactions would not be consistent with the underlying market risk for these transactions and should be re-aligned with current treatment.

The preamble to the Proposal indicates that the Agencies would retain the treatment of term repo-style transactions in the current capital rule and banking organizations would continue to be able to elect to include term repo-style transactions in market risk.[23] Under the Proposal, a banking organization would be required to capture the risk factor sensitivities of the cash leg to general interest rate risk and separately calculate the default risk capital requirement in the revised market risk framework ("**FRTB-DRC**") to capture issuer default risk on the security collateral.[24]

The requirement for banking organizations to calculate a distinct FRTB-DRC to capture the issuer default risk on the security collateral is duplicative as any risk associated with the default of the issuer is already appropriately captured. First, the default risk associated with the security collateral is already included in the FRTB-DRC charge to the extent the securities are on balance sheet and as such exposes the banking organization to market risk. This scenario would arise if the banking organization purchased a security and financed the purchase through a repo, for example. Second, the effects of potential changes in the value of the security collateral are already addressed through mark-to-market, daily margin maintenance and day-to-day risk management of term RST portfolios, while the impact on the counterparty credit risk and exposure at default calculation are addressed through the supervisory haircuts provided in the collateral haircut approach. Furthermore, any additional DRC charge would not be consistent

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21 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_08.

22 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_09.

23 91 Fed. Reg. at 15,076; *Question 180: The proposal would retain the current capital rule's treatment of repurchase and lending agreements with an original maturity of more than one business day (term repo-style transactions). What are the advantages and disadvantages of allowing a banking organization to treat repurchase agreements with no specified maturity date (open repurchase transactions) or those which maturity date automatically renews until canceled by a participating party (evergreen repurchase transactions), and why? To what extent open and evergreen repurchase transactions have different risk profiles from term repo-style transactions?*

24 91 Fed. Reg. at 15,076; § __.205(f).

with the treatment of term repo-style transactions in the current U.S. capital framework.[25] More broadly, the proposed approach would make the election for term repo-style transactions in § __.205(f) practically unworkable and would not appropriately reflect the risk profile of these transactions.[26]

Accordingly, the Agencies should retain the current market risk capital treatment of term repo-style transactions and include these transactions in the sensitivities-based method under FRTB-SA to capture the interest rate risk of the funding leg without separately requiring a banking organization to apply FRTB-DRC in respect of the underlying collateral. That recommendation could be implemented through removing the requirement to calculate the DRC requirement for term repo-style transactions in § __.205(f)(3).

With this rule change and the ability for banks to include term repo-style transactions in market risk, the impact to CCR risk-weighted assets ("**RWA**") of recognizing the risk mitigating benefit of non-investment grade collateral would be a reduction of $59 billion.[27]

B. Banking organizations should be permitted to assign a maturity of 3 months to equity derivative exposures to avoid overstating the risk of equity hedges that use short-dated equity derivatives to hedge longer-dated equity exposures.

Under the FRTB-DRC capital requirements, a banking organization would be permitted to assign the same maturity to a cash equity position that hedges derivative contracts as the maturity of the derivative contract it hedges[28] and align the maturity of the default risk position with the derivative contract it hedges where a default risk position can be delivered into a derivative contract that it hedges in fulfillment of the contract.[29]

However, the Proposal would not appropriately recognize the risk-reducing effects of short-dated derivative positions that hedge longer-dated derivative positions because, in those circumstances, the extent of offsetting treatment would be determined by the maturity of the derivative contract.[30] As a result, the Proposal would not permit full netting without maturity scaling in FRTB-DRC calculations when a longer-dated derivative is hedged with a liquid

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25 § __.205(a) of current U.S. capital rules.

26 Accordingly, the baseline QIS estimate on CCR RWA does not incorporate the effects of including term repo-style transactions in market risk. Including term repo-style transactions in FRTB would have an effect on the overall RWA impact, which is not reflected in this impact estimate. The impact on FRTB, however, would be far smaller than the impact on CCR RWA.

27 See Appendix 1 – Quantitative Impact Study Results, Index SFT_01.

28 § __.210(a)(2)(iii)(A)(1).

29 § __.210(a)(2)(iii)(A)(2).

30 § __.210(a)(2)(iii).

derivatives instrument (e.g., futures or plain-vanilla European or American options), which would not be appropriately aligned with underlying economic risk and would result in a significant over calibration of capital requirements. In particular, the Proposal would not reflect that the above-mentioned liquid hedging instruments may be readily rolled, unwound or replaced through standard market transactions.

Historical studies demonstrate that trading volumes and liquidity for equities generally increase during periods of stress, including during the COVID-19 crisis.[31] The implicit assumption in the Proposal that banking organizations may not be able to roll derivative hedges is not supported by the empirical evidence.

Accordingly, banking organizations should be permitted to assign a maturity of 3 months to equity derivative exposures, which would reduce operational burden and more appropriately recognize hedging and would be consistent with the applicable frameworks in the European Union and the United Kingdom.[32]

Based on the QIS, the marginal impact to non-securitization DRC of permitting banking organizations to assign a maturity of 3 months to equity derivative exposures is a reduction of 22 percent.[33] This corresponds to an RWA impact of $44 billion.[34]

C. The proposed FRTB-DRC requirements for correlation trading positions should be revised to simplify the conditions and mechanisms for reflecting the economics of hedging activities through decomposition.

Under the Proposal, the netting of gross default exposure for a correlation trading position ("**CTP**") would be allowed in certain specified scenarios under § __.210(d)(2). The overarching principle underlying these scenarios is that netting is performed at the undecomposed instrument level and decomposition into single-name exposures is only related to residual single-name exposures that do not match between the long and the short as applied when netting indices of different series. This proposed framework would be:

- **Operationally complex to implement**: The proposed implementation would require the creation of synthetic tranches. For example, a banking organization may have a portfolio in which it is long an untranched index and has a short

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31 See, e.g., Zach Modig, Hulusi Inanoglu and David Lynch, Impact of the Volcker Rule on the Trading Revenue of Largest U.S. Trading Firms During the COVID-19 Crisis Period (Federal Reserve, Fin. & Econ. Discussion Series No. 2025-005, 2025), available at https://www.federalreserve.gov/econres/feds/files/2025005pap.pdf.

32 Article 325x(4) of U.K. PRA; Article 495q of EU Capital Requirements Regulation (CRR).

33 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_10.

34 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_11.

exposure in the senior tranche of that same index / series (15 percent to 100 percent). Given that the untranched index can be considered to overlap all tranches, i.e., 0 percent to 100 percent, § __.210(d)(2)(iv) would allow the netting of the untranched index with the senior tranche. In this case, the banking organization would have to create synthetic tranches to reflect the unnetted portion of the capital structure (0 percent to 15 percent) which would require a valuation service to calculate the mark-to-market ("MtM") or gross JTD of these bespoke tranches. There would be additional operational complexities when netting across different series as allowed under § __.210(d)(2)(iii). The carving-out of unmatched single-name exposures through decomposition would require the creation of unmatched bespoke tranches with a bespoke basket of underlying names (those that are matched) where MtM or gross JTD would need to be calculated for such bespoke positions.

- **Prone to inconsistent capital outcomes across banks for the same exposures**: The implementation would require a matching algorithm given that a particular exposure could be netted in different ways. In the example provided above, an untranched index could potentially net with tranches within a series or across a series. In addition, an algorithm would also need to determine how much should be netted as exposure to a certain tranche, e.g., a junior tranche, may increase even when exposure to another tranche, e.g., senior tranche, may decrease through netting. Any such algorithm will be different across banking organizations and will lead to inconsistent capital outcomes.

- **Inconsistent with risk management**: In the context of default risk, CTP positions are risk managed based on a net single-name exposure basis. As such, CTP positions are decomposed into single-name exposures and a net position per single name is calculated and that is risk managed. For the purpose of default risk, it is not relevant whether a single-name exposure arises from a tranche, an untranched index or a single-name credit default swap ("**CDS**"). The envisaged creation of synthetic tranches as outlined above has no risk management or economic basis, other than that it reduces the gross exposure.

Accordingly, the Agencies should reconsider this netting framework and instead implement an approach that allows banking organizations to decompose tranched and untranched indices and net on a single-name basis. This would include the following steps:

- Decomposition into single-name JTDs, calculated by a valuation model as a marginal default without rescaling the single-name JTDs.

- Calculation of single-name JTD using the non-securitization supervisory Loss Given Default ("**LGD**").

- Netting against all other exposures in the same underlying name, including single-name CDSs and decomposed single-name exposure of untranched indices.

- Bucketing of single-name exposures should follow the non-securitization approach.

- Assigning non-securitization risk weights to the netted single-name JTDs.

This recommended framework would result in a netting approach that would produce a consistent implementation across banking organizations as it would not require any netting algorithm or creation of synthetic positions. This framework also would simplify the framework and, accordingly, would be aligned with the principles underlying standardized approaches. Relatedly, it is important to provide netting of CTP positions within the DRC calculation such that capital outcomes remain commensurate with the risk.

In particular, if decomposition is not permitted, capital requirements for CTPs would increase by 195 percent based on QIS results in connection with the 2023 proposal. If decomposition is permitted and non-securitization risk weights are applied to decomposed single-name net default exposures, capital requirements for CTPs would increase by 33 percent based on QIS results in connection with the 2023 proposal.[35]

D. Certain non-U.S. sovereign exposures should be subject to exclusions to improve consistency with other parts of the capital rules.

Under the Proposal, non-U.S. sovereign exposures would be subject to FRTB-DRC.[36] The proposed approach raises several distinct issues:

First, the Proposal would not recognize exposures that are denominated in a local currency that are effectively offset by an equivalent amount of local currency liabilities. For purposes of applying FRTB-DRC, non-U.S. sovereign exposures that are denominated in a local currency and are effectively offset by an equivalent amount of local currency liabilities should be excluded to the extent the local regulator would assign a 0 percent risk weight. That recommendation would be broadly consistent with the current specific risk treatment of non-U.S. sovereign debt positions.[37] The recommendation also would align with the treatment under the

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35 Letter from ISDA and SIFMA to the Agencies re: Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking Organizations with Significant Trading Activity, p. 37 (Jan. 16, 2024) [hereinafter 2024 ISDA/SIFMA Letter], available at https://www.isda.org/a/1ElgE/ISDA-and-SIFMA-Response-to-US-Basel-III-NPR.pdf.

36 Table 1 to § __.210.

37 § __.210(b)(2)(i)(B) of current U.S. capital rules.

current and proposed credit risk capital framework.[38] Inconsistencies between the credit risk and market risk treatment for these positions could provide incentives to structure positions that are traditionally trading positions as banking book positions.

Second, sovereign exposures that receive a 0 percent risk weight for credit risk purposes under the current capital rules and the proposed credit risk capital framework would be subject to a non-zero FRTB-DRC capital requirement. Sovereign exposures that receive a 0 percent risk weight under the proposed credit risk capital framework should be excluded from FRTB-DRC, in particular OECD sovereigns with no country risk classification ("**CRC**") or a CRC between 0 and 1.[39]

Based on the QIS: (1) the marginal impact of excluding non-U.S. sovereign exposures denominated in a local currency that a) receive a 0 percent risk weight by the local regulators and b) are offset by an equivalent amount of local currency liabilities would be a reduction of 15 percent[40] to non-securitization DRC, and (2) the marginal impact of excluding non-U.S. sovereigns that receive a 0 percent risk weight under the proposed credit risk capital framework would be a reduction of 2 percent[41] to non-securitization DRC.

The RWA impact corresponding to these changes is $36 billion.[42]

E. The risk sensitivity of the FRTB-DRC aggregation formula should be improved to enhance the diversification of the FRTB-DRC calculation.

Under the Proposal, the HBR in the FRTB-DRC framework would not adequately capture diversification and hedging benefits for a well-diversified portfolio with both long and short positions. Unlike other major jurisdictions where banking organizations may calculate FRTB-DRC using models-based approaches—which take into account actual issuer default correlations—banking organizations subject to the U.S. capital framework would be limited to the standardized FRTB-DRC calculation. The HBR aggregation formula, accordingly, must be appropriately calibrated, as it is the only available methodology to recognize actual hedging and diversification benefits under FRTB-DRC.

By adding together issuer level long and short default exposures, the FRTB-DRC framework in the Proposal would assume a perfect correlation across issuer defaults where the banking organization is long and across issuer defaults where the banking organization is short.

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38 § __.111(a)(3); § __.32(a)(3) of current U.S. capital rules.

39 2024 ISDA/SIFMA Letter at pp. 29-31.

40 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_12.

41 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_13.

42 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_14.

As a result, the proposed framework would not capture the economic default risk on a well-diversified hedged portfolio where there is less than perfect correlation.

Revising the HBR to improve the hedge recognition between long and short positions would mitigate this issue and make the FRTB-DRC calculation more risk sensitive. Consistent with the Proposal, this revised formula would result in an HBR between 0 and 1, an economically meaningful result.

Under this recommendation, the HBR calculation for each bucket would be calculated as follows:

$$HBR = \frac{\sum net\ default\ exposure_{(long)}}{\sqrt{\left(\sum net\ default\ exposure_{(long)}\right)^2 + \left(\sum net\ default\ exposure_{(short)}\right)^2}}$$

Based on the QIS, the non-securitization DRC RWA would decrease by 19 percent[43] if the new HBR formula were implemented.

F. The proposed treatment of equity positions in investment funds would be unduly punitive and requires revision.

1. The FRTB-DRC risk weights for equity positions in investment funds should be reduced and the available FRTB-DRC approaches should be expanded.

For purposes of applying FRTB-DRC to equity positions in investment funds, a banking organization would be required to fully look through its fund positions or otherwise apply either the hypothetical portfolio approach or treat the exposure as a single sub-speculative equity exposure.[44]

Treating the position as a single sub-speculative equity exposure would result in a risk weight of 50 percent, which would not be appropriately risk sensitive. Instead, a banking organization should be permitted to apply a 22 percent risk weight under FRTB-DRC in respect of these exposures, consistent with the risk weight applicable to speculative grade exposures. Treating positions as a speculative equity exposure would be appropriately conservative and would align more closely with the EU approach, which treats these positions as "unrated" single-

[43] See Appendix 1 – Quantitative Impact Study Results, Index FRTB_15.

[44] § __.205(e)(3)(ii)-(iii).

name equity positions that receive a risk weight that is lower than that assigned to speculative grade exposures under the Proposal.[45]

Based on the QIS, the impact to non-securitization DRC of applying a 22 percent risk weight for funds is a reduction of 3 percent.[46]

Of this change, 98 percent[47] is from funds, while 2 percent[48] is from non-decomposed indices.

2. The available approaches for equity positions in investment funds should be clarified and expanded.

With respect to an equity position in an investment fund subject to market risk capital requirements, a banking organization would be required to determine whether it is able to use the look-through approach for its proportional ownership share of the underlying positions of the investment and fund. A banking organization would be required to split its position in the investment fund into a portion for which it can and cannot apply the look-through approach.[49]

The proposed framework for when a banking organization is able to look through the investment fund is complex because those provisions cross-reference the treatment of index instruments and multi-underlying options and it is not clearly specified whether these approaches would be permitted uniformly across equity, credit and money market funds. In addition, whereas the preamble to the Proposal references that banking organizations may use an effective risk weight calculated by third parties, the rules text does not directly incorporate that approach.[50]

Accordingly, in addition to implementing a framework for using the effective risk weight calculated by third parties, the framework also should include specific treatment for fixed-income and equity positions. This treatment would result in more appropriate risk sensitivity when other approaches are not available or would be operationally cumbersome. Under this recommended approach, the risk weights for the fund buckets would be determined based on asset class and capital for a set of representative funds.

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45 Assigning a 22 percent risk weight would be more conservative than the 15 percent risk weight assigned under the EU framework.

46 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_16.

47 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_17.

48 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_18.

49 § __.205(e)(1).

50 91 Fed. Reg. at 15,075.

Specifically, for a fixed-income fund, the risk weights should be based on the type of underlying holdings of the fund, as well as the overall credit quality and duration of the constituents of the fund.[51]

Derived Risk Weights for Fixed Income

		Duration			
Asset Class	**Fund Type Bucket**	**≤1-year**	**1-year to 5-year**	**5-year to 10-year**	**≥10-year**
Fixed Income	**Investment Grade ("IG") Sovereign Funds**	1%	4%	8%	16%
	Speculative & Sub-Speculative Sovereign Funds	3%	10%	20%	40%
	IG Non-Sovereign Funds	2.5%	10%	20%	45%
	Speculative & Sub-Speculative Non-Sovereign Funds	5%	20%	35%	70%

For equity funds, the risk weights should be similar to those provided in the existing equity index buckets (i.e., 15 percent to 25 percent). The risk weights of the investment funds would be based on the type of fund and duration which are most representative of the investment fund's strategy. These risk weights would be applied to sensitivities generated in alignment with the methodology used for equity exposures.

Derived Risk Weights for Equity

Asset Class	Fund Type Bucket	Risk Weight
Equity	**Large cap and liquid economy funds**	15%
	Other equity funds	25%

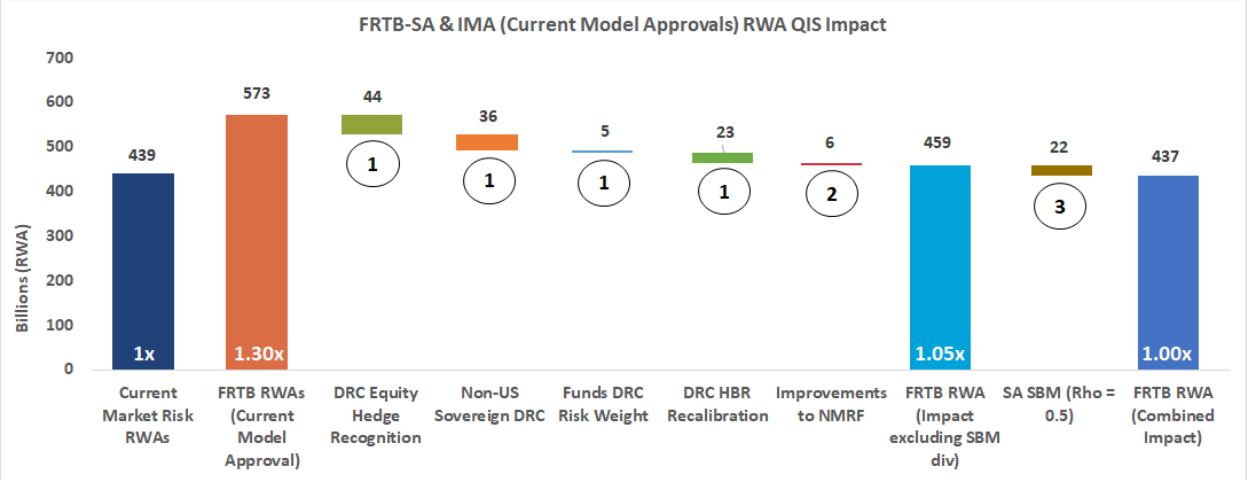
With respect to correlation, for fixed income funds, intra-bucket correlation would be aligned to § __.209(b)(2)(iii)(C) of the proposed rules text (i.e., in the same manner that sensitivities in the index buckets 19 and 20 are aggregated). Aggregation across the four buckets would align with the principles specified in § __.209(b)(2)(iv) in which the correlation is defined as the product of a correlation for credit quality and sector. Different credit quality (i.e., IG versus Speculative & Sub-Speculative) would mean that credit quality correlation would be 50 percent; funds with the same credit quality would result in a 100 percent credit quality

[51] Addendum to 2024 ISDA/SIFMA Letter, p. 4 (Apr. 8, 2024), available at https://www.isda.org/a/q8wgE/ISDA-SIFMA-Basel-III-Endgame-Comment-Letter-Addendum.pdf.

correlation. Similarly, different sector (i.e., sovereign versus non-sovereign) would result in a 75 percent sector correlation and the same sector would result in a 100 percent sector correlation.

For equity funds, the intra-bucket correlation would be determined based on § __.209(b)(5)(iii)(A)(1) for sensitivities to equity repo rates and spot prices if the funds are the same. For different funds within the same bucket, the correlation would be 80 percent as per § __.209(b)(5)(iii)(A)(2)(v), which would be multiplied by 99.9 percent if one sensitivity is against spot prices and the other is against repo rates based on § __.209(b)(5)(iii)(A)(3). The cross-bucket correlation between the large cap equity fund bucket and the other equity fund bucket would be 75 percent as per § __.209(b)(5)(iv)(C). There would be no recognition of any diversification benefit across fixed income and equity fund buckets or with other risk classes under this recommended approach. Capital requirements for fixed income funds and equity funds under this recommended approach would be calculated separately.

III. Market Risk: FRTB-IMA



Impact of FRTB-IMA and Selected FRTB-SA Quantified Mitigation Items:

1. **FRTB-DRC**: Implementing the FRTB-DRC mitigation items mentioned in Section II for **equity derivatives**, **sovereigns**, **funds**, and the **HBR formula** would lead to $108 billion[52] RWA reduction.

2. **Improvements to NMRF**: Removing Type A NMRFs from the SES methodology and increasing the liquidity horizon of Type A NMRFs by one notch in the ES methodology would lead to $6 billion[53] RWA reduction.

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52 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_19.

53 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_20.

3. **FRTB-SA diversification**: Introducing an inter risk-class correlation parameter of 0.5 would result in a $22 billion [54] RWA reduction in FRTB RWA, assuming current model approval.

A. Type A NMRFs should be capitalized using solely the ES methodology.

Under the Proposal, Type A NMRFs would represent risk factors that satisfy the qualitative test but not the quantitative test. These Type A NMRFs would be subject to both the ES methodology that generally applies for modellable risk factors and the stressed expected shortfall ("**SES**") that generally applies to non-modellable risk factors. All other non-modellable risk factors would be classified as Type B NMRFs and would be subject to SES. [55]

The Associations broadly support a framework that permits Type A NMRFs to be subject to capital requirements based on the ES methodology. However, Type A NMRFs should not be subject separately to SES because that approach would not appropriately recognize diversification within and across asset classes and would result in an over calibration of capital requirements. [56]

The Agencies recognized the concern of including Type A NMRFs in SES in the preamble to the Proposal and suggested two alternative approaches: (i) increasing the backtesting

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54 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_21.

55 § __.214(a).

56 *Question 144: The agencies seek comment on whether it is appropriate to include type A non-modellable risk factors within IMCC and SES calculations. What, if any, adjustments (such as permitting banking organizations to treat type A non-modellable risk factors as type B non-modellable risk factors) should the agencies consider to more appropriately reflect type A non-modellable risk factors within the models-based non-default capital requirement and why? Commenters are encouraged to provide supporting data.*

multiplier,[57] and (ii) assigning minimum liquidity horizons to Type A NMRFs that are generally one level higher.[58]

We recommend adjusting the backtesting multiplier to 1.57.[59] Although the Agencies proposed a multiplier of 1.70, based on the QIS, a multiplier of 1.57 is the correctly calibrated figure given that it would produce a capital impact equivalent to a one-notch increase in the liquidity horizon for Type A NMRFs. This recommended approach would be operationally simpler than the alternative to increase liquidity horizons and would achieve the same capital outcome. Accordingly, the Agencies should require that Type A NMRFs be included only in the ES methodology, with the backtesting multiplier adjusted to 1.57.

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[57] *Question 145: The agencies seek comment on whether the alternative approach described above would more appropriately capture the inherently higher model and liquidity risk associated with a type A nonmodellable risk factors due to infrequent price observations. What would be advantages and disadvantages of requiring a higher minimum liquidity horizon for type A non-modellable risk factors to capture their risks within IMCC? How would banking organizations implement and ensure consistency in the appropriate treatment of these risk factors when there is already flexibility to scale up liquidity horizons above the minimum requirement for both modellable risk factors and non-modellable risk factors? What would be the impact on capital requirements of capturing type A nonmodellable risk factors with a higher minimum liquidity horizon only within the IMCC calculation? What, if any, other alternative approaches should the agencies consider to more appropriately capture the risks of type A nonmodellable risk factors (for example, applying capital multiplier (mc) adjustment to the 60-day average IMCC when it incorporates type A nonmodellable risk factors), and why? In such cases, what would be the appropriate higher capital multiplier for the IMCC? What are the advantages and disadvantages of using a higher capital multiplier (mc) adjustment to the 60-day average IMCC as shown in the example table below in place of the higher minimum liquidity horizon?*

Number of Backtesting Exceptions	Multiplication factor for (m_c)
0	1.70
1	1.70
2	1.70
3	1.70
4	1.70
5	1.90
6	1.96
7	2.03
8	2.08
9	2.12
10 or more	2.20

[58] 91 Fed. Reg. at 15,051-52. *Question 143: The agencies request comment on the appropriateness of the proposed requirements for the risk factors included in the models-based non-default capital requirement. What, if any, alternative requirements should the agencies consider, such as requiring risk factor coverage to align with the financial reporting models, and why? Specifically, please describe any operational challenges and impact on banking organizations' minimum capital requirements that requiring the expected shortfall model to align with the financial reporting models would create relative to the proposal.*

[59] See Appendix 1 – Quantitative Impact Study Results, Index FRTB_22.

If the Agencies determine not to implement a backtesting multiplier adjustment, the Associations recommend as an alternative to permit a one-notch increase to the liquidity horizon of Type A NMRFs. Although a backtesting multiplier would be operationally simpler, the liquidity horizon approach is also workable. The Agencies referenced potential operational burdens associated with assigning minimum liquidity horizons to Type A NMRFs that are one level higher and raised that the approach could "increase variability in the market risk capital requirements across banking organizations."[60] However, this approach would not result in substantial operational burdens or increase variability in market risk capital requirements. With respect to operational burdens, although a banking organization would maintain systems that permit it to switch between calculating NMRF capital requirements under the ES and SES methodologies, the costs associated with maintaining these systems would be outweighed by the benefits of applying FRTB-IMA given its enhanced risk sensitivity relative to FRTB-SA. Further, in order to implement FRTB-IMA, banking organizations would already be required to construct a table that would assign a liquidity horizon to each risk factor.

According to the QIS, removing Type A NMRFs from the SES methodology and increasing the liquidity horizon of Type A NMRFs by one notch in the ES methodology would lead to a reduction of $6 billion[61] RWA.

B. The Agencies should incorporate appropriate transition provisions to facilitate applying models-based approaches beginning on the effective date of the revised market risk framework.

In general, it will be critical for banking organizations to be permitted to apply FRTB-IMA beginning on the effective date of the revised market risk capital framework. The Associations are concerned that the proposed supervisory approval process for internal models and trading desks could result in banking organizations not being permitted to apply FRTB-IMA as of the effective date.

Under the Proposal, a banking organization would be required to receive prior approval from the applicable Agency for a trading desk to be considered a model-eligible trading desk, which would require supervisory approval of the internal models and compliance with specified requirements.[62] For an 18-month transitional period starting from the effective date of the revised market risk capital framework, a trading desk should be considered model-eligible for purposes of applying FRTB-IMA if the banking organization obtains the requisite internal approvals for the trading desk to use internal models as an internal governance matter and determines its internal models satisfy the applicable requirements.[63] This recommended

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60 91 Fed. Reg. at 15,052.

61 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_23.

62 § __.212(b)(2).

63 § __.212(d).

transitional approach for model approval that is based on satisfying internal governance requirements rather than Agency approval, would provide a more credible mechanism for banking organizations to apply FRTB-IMA to trading desks beginning on the effective date of the revised market risk capital requirements. This recommended approach also would mitigate resource constraints and operational burdens for both banking organizations and Agency staff.

With respect to the standardized CVA approach ("**SA-CVA**"), a banking organization would be required to receive approval of the applicable Agency prior to using SA-CVA to calculate CVA risk capital requirements.[64] The Agencies similarly should implement appropriate transitional mechanisms into a final rule that would permit a banking organization to apply SA-CVA beginning on the effective date of the revised CVA risk capital requirement if the banking organization obtains the requisite internal approvals based on its internal governance processes. Because the basic CVA approach ("**BA-CVA**") otherwise would be the default methodology for CVA risk capital requirements absent approval to apply SA-CVA, this recommended approach would provide an appropriate transitional mechanism for banking organizations to apply the more risk-sensitive SA-CVA framework beginning on the effective date.

IV. Market Risk: Other FRTB Topics

A. The market risk covered position definition as applied to structured notes should be broadened and clarified.

Structured notes are securities issued by banking organizations where the return on the note that the investor receives is not plain-vanilla, such as in the form of a fixed-rate coupon, but rather structured (e.g., by linking the return to the performance of a reference asset such as a stock index). A structured note can be viewed as a host note with an embedded derivative. Structured notes permit investors to receive tailored return profiles and are part of the banking organization's core function of client intermediation. Banking organizations would hedge the risk arising from the embedded derivative through derivatives like any market risk covered position. Generally, banking organizations elect the fair value option to account for these issuances on the balance sheet. Given this balance sheet representation, it would not be considered a trading account liability under U.S. generally accepted accounting principles ("**GAAP**"), which would not necessarily bring these notes in scope of a market risk covered position under the general prong of the definition that includes trading account assets and trading account liabilities.

For the reasons outlined above, the Associations generally support the Agencies' efforts to include elements of structured notes that the banking organization accounts for under the fair value option based on paragraphs (1)(ii)(E)-(F) of the market risk covered position definition. However, the proposed definition refers specifically to structured notes that relate to credit or equity risk and does not refer to other risks (e.g., interest rate risk). Banking

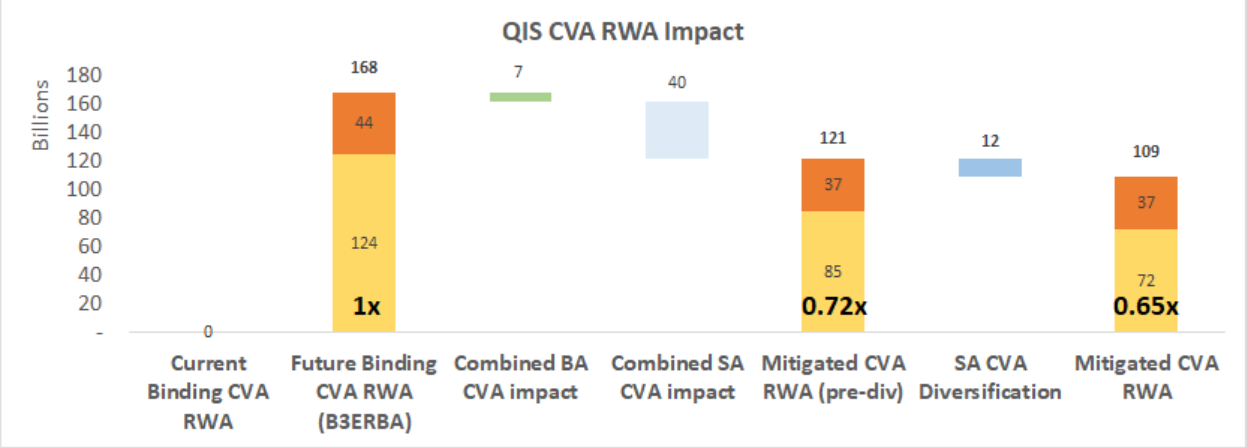
[64] § __.223(a)(1).

organizations should be permitted to include any structured note that is accounted for under the fair value option within market risk as long as the risk of the embedded derivative is activity that is risk managed as a trading book position.

In addition, the Agencies should clarify that supervisory approval under paragraph (1)(ii)(F) would be required only if a banking organization sought to include the entire note (i.e., the host note and the embedded derivative components and not just the embedded derivative component of the structured note under the fair value option) as a market risk covered position. If a banking organization only includes the embedded derivative component under paragraph (1)(ii)(F), no supervisory approval should be needed. Generally, banking organizations only include the embedded derivative component as a market risk covered position as this is the element that would be actively risk managed as a market risk covered position.

V. CVA Risk

Under the current U.S. capital rules, the U.S. standardized approach generally is the binding capital constraint for large banking organizations. The current standardized approach includes capital requirements only for market risk and credit risk and does not include CVA risk. As a result, CVA RWA is zero in the current standardized approach. The Proposal's ERBA includes capital requirements for CVA risk and operational risk, in addition to market risk and credit risk. Going forward, ERBA will be the binding capital constraint for firms applying ERBA. The QIS results show a total of $168 billion [65] under ERBA, including both BA-CVA and SA-CVA. If the Agencies were to implement the below mitigation items, the combined impact would reduce the total CVA RWA to 0.65 [66] times the proposed total CVA RWA.



65 See Appendix 1 – Quantitative Impact Study Results, Index CVA_01.

66 See Appendix 1 – Quantitative Impact Study Results, Index CVA_02.

Impact of CVA Quantified Mitigation Items:

If the Agencies were to implement the below mitigation items, the combined impact would reduce ERBA CVA RWA by 35 percent[67] or $59 billion.[68]

1. **Increasing granularity of financials risk bucket**: 14 percent[69] reduction

2. **Treating SPV repack based on bond issuer**: 14 percent[70] reduction

3. **Introducing inter-risk class diversification in SA-CVA**: 7 percent[71] reduction

A. The risk buckets for the CVA risk capital requirements should be more granular, distinguishing between regulated and unregulated financial counterparties, to enhance the risk sensitivity of the CVA risk framework.

In general, the proposed risk weights for financial institutions[72] under the CVA framework would not be appropriately risk sensitive.[73] In particular, there should be enhanced granularity of the risk weights applicable to financial institutions to reflect the differences in risk profiles between highly regulated financial entities (including banks) and other financial institutions. Under the BA-CVA and SA-CVA frameworks in the Proposal, a banking organization would assign a 5 percent risk weight to investment grade financials and a 12 percent risk weight to speculative grade and sub-speculative grade financials. Based on the QIS,

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67 See Appendix 1 – Quantitative Impact Study Results, Index CVA_03.

68 See Appendix 1 – Quantitative Impact Study Results, Index CVA_04.

69 See Appendix 1 – Quantitative Impact Study Results, Index CVA_05.

70 See Appendix 1 – Quantitative Impact Study Results, Index CVA_06.

71 See Appendix 1 – Quantitative Impact Study Results, Index CVA_07.

72 Table 1 to § __.222, Table 3 to § __.225.

73 *Question 184: The agencies seek comments on the appropriateness of the proposed risk weights of Table 1 to § __.222 for financials, including government-backed financials. What, if any, alternative risk weights should the agencies consider? What are the advantages and disadvantages of subjecting regulated financial entities (such as banks, insurance companies, broker-dealers, pension funds, and registered investment companies or their foreign equivalents) to lower risk weights? Please provide specific details and supporting evidence on the alternative risk weights.*

Question 189: The agencies seek comments on the appropriateness of the proposed risk weights of Table 3 to § __.225 for financials, including government-backed financials. What, if any, alternative risk weights should the agencies consider? Should regulated financial institutions (such banks, insurance companies, broker dealers, pension funds, registered investment companies, and their foreign equivalents) be subject to lower risk weights? Please provide specific details and supporting evidence on the alternative risk weights.

reducing the risk weight for regulated financial including government-backed financial institutions and highly regulated entities to 3 percent (for investment grade) and 8.5 percent (for speculative grade and sub-speculative grade) would reduce total CVA capital requirements by 14 percent.[74] This approach would more appropriately reflect the continuing progress in market and prudential regulation (e.g., non-cleared margin rule requirements for the market broadly, capital and liquidity regulation on banks and broker-dealers, and relevant regulation changes for registered funds, as well as insurance and pension fund regulations in applicable jurisdictions) that contributes to the systemic reduction of counterparty credit risk in the highly regulated financial system. As a result of these reforms, CVA risk with respect to banks and other highly regulated financial entities has been substantially reduced.

The reduction of counterparty credit risk is demonstrated empirically by the reduced level of credit spread volatility observed for banks and other highly regulated financial institutions, including open-ended mutual funds, pension funds and companies regulated by the Investment Company Act of 1940.

This empirical analysis, as detailed in the data presented in the 2024 ISDA/SIFMA Letter,[75] supports the recommended lower risk weight calibration for banks and other highly regulated non-bank financial entities.

B. The CVA capital treatment for SPV repack structures should be based on the issuer of the underlying bonds to better reflect the economic risks and accounting treatment of these structures.

Repack structures are SPVs that acquire assets (typically low-risk assets, such as government bonds) and repackage the cash flows of those assets, via derivative transactions with a banking organization, into new structured notes that meet investors' specific return requirements. The banking organization would have a security interest in the bonds held by the SPV (so-called charged assets) and because the bond represents the ultimate source of repayment the banking organization looks through the SPV to effectively consider the issuer of the underlying bond to be the actual counterparty. This means that, for CVA financial reporting purposes, the banking organization would use the credit curve associated with the issuer of that bond to calculate the CVA on-balance sheet component. Similarly, the CVA risk management model would also use the historical credit spreads of the bond issuer to calibrate the shocks.

The Proposal would allow a banking organization to calculate the CVA capital requirements under either the basic measure for CVA risk or if prior approval is obtained the standardized measure for CVA risk. Under both of these approaches the banking organization would need to map its counterparties to prescribed sectors under Table 1 to § __.222 or Table 3 to § __.225. Under the Proposal, banking organizations would generally map SPVs to the

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74 See Appendix 1 – Quantitative Impact Study Results, Index CVA_08.

75 2024 ISDA/SIFMA Letter at pp. 109-111.

financials bucket. This would result in a material misalignment with the underlying risk unless the issuer of the bond is a financial institution. This is illustrated by comparing the marginal contribution of on-balance sheet CVA arising from repack structures to total on-balance sheet CVA of only 6 percent [76] and the marginal contribution of CVA capital requirements of repacks to total CVA capital requirements of 14 percent [77] when the SPVs are mapped to the financial bucket.

For the reasons outlined above, and consistent with the accounting CVA and established CVA risk and counterparty credit risk management practices, the banking organization should be permitted to treat the exposure as an exposure to the issuer of the underlying bond for purposes of determining CVA risk capital requirements, and accordingly assign the CVA risk weights and sector buckets.

Under the recommended approach (i.e., using the risk weight of the collateral rather than the counterparty), the marginal contribution of SPV repacks to CVA RWA is 3 percent, [78] which generally aligns with their contribution under accounting and balance sheet CVA (i.e., 6 percent). [79]

C. The Agencies should revise several aspects of the application of the $1 trillion threshold for OTC derivatives at which a banking organization would be required to calculate CVA.

The Proposal would apply CVA risk capital requirements to Category I and II banking organizations, subsidiaries of Category I and II banking organizations that are subject to market risk capital requirements, and any banking organization subject to the market risk framework that engages in over-the-counter ("**OTC**") derivative contracts with an aggregate gross notional value of at least $1 trillion, as reported on regulatory filings over a four-quarter period and adjusted for indexing. We have three recommendations related to the application of CVA risk capital requirements: (i) the threshold should be raised from $1 trillion to $5 trillion; (ii) the threshold should not include the client-facing leg of cleared derivatives and (iii) the threshold should exclude affiliate derivative transactions.

First, the Agencies could streamline the application of CVA risk capital requirements by raising the threshold to $5 trillion. The Agencies noted that the threshold of $1 trillion would capture approximately 98 percent of OTC derivatives exposures of depository institutions. A threshold of $5 trillion would still capture approximately 93 percent of these

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76 See Appendix 1 – Quantitative Impact Study Results, Index CVA_09.

77 See Appendix 1 – Quantitative Impact Study Results, Index CVA_10.

78 See Appendix 1 – Quantitative Impact Study Results, Index CVA_11.

79 See Appendix 1 – Quantitative Impact Study Results, Index CVA_12.

exposures,[80] while tailoring the application of this requirement to banking organizations that are most involved in these markets. Accordingly, the 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.

Second, the threshold should not include the client-facing leg of cleared derivatives. Client-facing derivatives, in contrast to bilateral OTC derivatives, do not give rise to CVA risk for clearing member banking organizations and would appropriately not be subject to CVA risk capital requirements. Failing to exclude client-facing derivatives could result in Category III and IV banking organizations in particular becoming subject to the CVA risk capital framework as a result of its portfolio of client-facing derivatives, notwithstanding that these client-facing transactions otherwise would not be subject to CVA requirements. Our recommendation would eliminate a fundamental regulatory inconsistency and align CVA risk capital requirements with actual CVA risk exposure.

Third, 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 and would penalize U.S. intermediate holding companies ("**IHCs**") of international banking organizations in particular. 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 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. International regulators in the European Union and the United Kingdom also have exempted these transactions from CVA capital requirements. Accordingly, international harmonization with respect to the application of CVA risk capital requirements in this context strongly favors the exclusion of intragroup derivatives transactions.

VI. Securities Financing Transactions and Derivatives

Industry QIS Results

Based on the QIS results, the total ERBA SFT and derivatives RWA for counterparty credit risk would be 0.77[81] times the current SFT and derivatives RWA. If the Agencies were to implement the below mitigation items, the combined impact would reduce the

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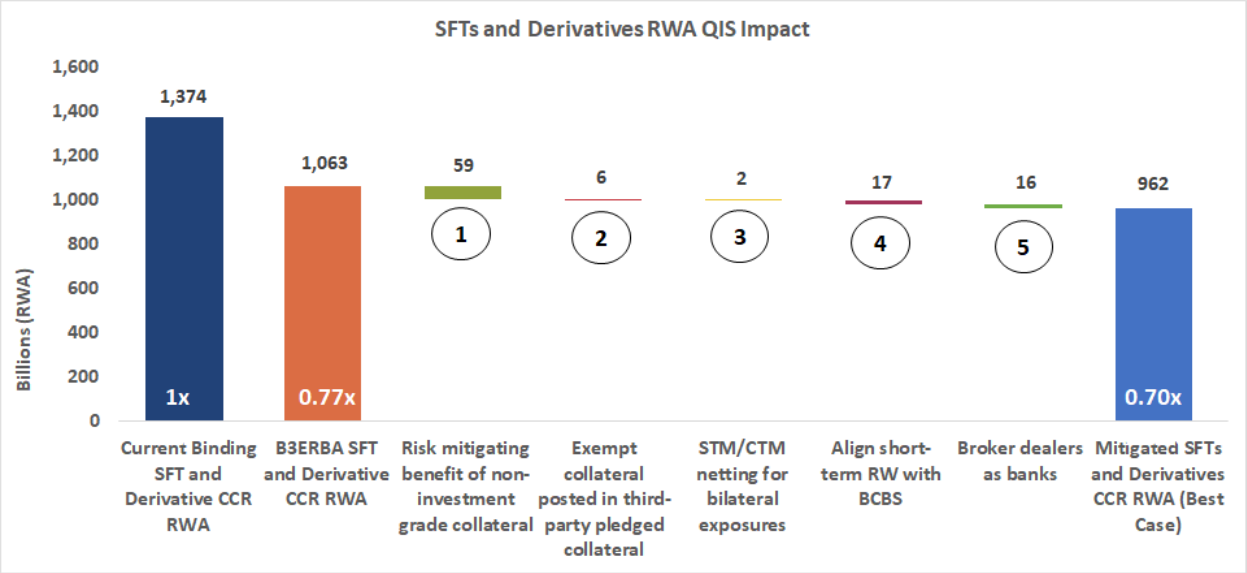
80 This estimate is based on analysis using publicly available regulatory data sourced from FR Y-9C and FR Y-15 filings, calculated as the average notional principal amounts of over-the-counter derivative contracts across the four quarters of 2025.

81 See Appendix 1 – Quantitative Impact Study Results, Index SFT_Derivs_01.

SFT and derivatives RWA to 0.70[82] times the current ERBA SFT and derivatives RWA. The proposed ERBA framework would permit a more risk-sensitive SFT exposure methodology and would assign a preferential risk weight for certain investment grade entities for SFTs and derivatives. As a result, an overall reduction in ERBA SFT and derivatives RWA would be expected under ERBA. The recommended mitigation items would further enhance the risk sensitivity of ERBA.



Impact of SFT and Derivatives Quantified Mitigation Items

1. **Risk mitigating benefit of non-investment grade collateral**: Reduction of $59 billion[83] RWA.

2. **Exempt collateral posted in third-party pledged arrangements**: Reduction of $6 billion[84] RWA.

3. **STM/CTM netting for bilateral exposures**: Reduction of $2 billion[85] RWA.

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82 See Appendix 1 – Quantitative Impact Study Results, Index SFT_Derivs_02.

83 See Appendix 1 – Quantitative Impact Study Results, Index SFT_02.

84 See Appendix 1 – Quantitative Impact Study Results, Index SFT_03.

85 See Appendix 1 – Quantitative Impact Study Results, Index SACCR_03.

4. **Align short-term risk weight for banks with that of the Basel framework**[86]: Reduction of $17 billion[87] RWA.

5. **Treat broker dealers and other qualifying securities firms as banks**: Reduction of $16 billion[88] RWA.

A. Banks should not be required to treat bankruptcy-remote collateral pledged through third-party custodial arrangements as an exposure for regulatory capital purposes.

The Associations appreciate changes made in previous rulemakings by the Agencies that allow banking organizations to exclude posted collateral that is bankruptcy remote from the exposure calculation in certain applications. Under the current U.S. capital rules, this pertains to collateral held in a bankruptcy remote manner for purposes of determining capital requirements for cleared transactions and to initial margin under SA-CCR under the definition of net independent collateral amount. The treatment under the current framework would be largely unchanged under the Proposal and, notably, would not allow banking organizations to exclude collateral that is posted and held in a bankruptcy remote manner across all counterparty credit risk exposures. In particular, the Proposal would not exclude from regulatory capital requirements collateral that is held in a bankruptcy remote manner when posted in the context of a repo-style transaction, or variation margin ("**VM**") in relation to derivative transactions.

In particular, under certain securities borrowing models, collateral is pledged into segregated custodial accounts, remains the property of the borrower, cannot be rehypothecated, and is bankruptcy remote from the lender, which holds only a security interest enforceable upon borrower default. Treating this type of collateral as an exposure for purposes of determining capital requirements for SFTs would create an inconsistency across the capital framework, and would lead to overstated exposure amounts, despite alignment with risk-reducing structures already recognized elsewhere in the rules. Equally, VM also may be held in a bankruptcy remote manner in certain instances, including when posted to SPVs. Collateral held in a bankruptcy remote manner does not constitute an exposure for the banking organization to the counterparty and, from the counterparty's perspective, the counterparty cannot rehypothecate the collateral. A counterparty generally would permit this structure only where its main objective is to protect itself against a default of the banking organization while not requiring rehypothecation rights for funding purposes.

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86 Items 4 and 5 in the SFT and derivatives waterfall are covered in the BPI/ABA/FSF/USCC letter, which includes recommendations regarding how the Agencies should revise the design of these aspects of the proposed credit risk framework in ERBA. The waterfall chart above covers the extent to which these recommendations impact SFTs and derivatives.

87 See Appendix 1 – Quantitative Impact Study Results, Index SFT_Derivs_03.

88 See Appendix 1 – Quantitative Impact Study Results, Index SFT_Derivs_04.

Accordingly, given that bankruptcy remote collateral does not constitute an exposure to a counterparty as an economic matter, banking organizations should not be required to treat bankruptcy-remote collateral pledged through third-party custodial arrangements as an exposure for regulatory capital purposes across all counterparty credit risk applications. The exposure should be aligned with the current rules for cleared transactions with respect to collateral that is legally segregated, bankruptcy remote from the counterparty, unavailable for reuse or rehypothecation, and accessible only upon counterparty default through a formal enforcement process.[89]

Based on the QIS, the impact from exempting collateral posted in third-party pledged collateral structures is a decrease in CCR ERBA RWA of 1 percent,[90] which corresponds to an RWA impact of $6 billion.[91]

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89 This recommendation also would apply in the context of the Standardized Approach Proposal.

90 See Appendix 1 – Quantitative Impact Study Results, Index SFT_Derivs_05.

91 See Appendix 1 – Quantitative Impact Study Results, Index SFT_04.

Clarifications and Operational Matters

I. SA-CCR

A. The supervisory delta in respect of repo-style transactions and eligible margin loans should be updated to align with SA-CCR.

Under the Proposal, a banking organization would be required to use a supervisory delta of 1 for a repurchase transaction or securities lending transaction and a supervisory delta of -1 for a reverse repurchase transaction or securities borrowing transaction.[92] This specification could create consistency issues with the determination of supervisory delta for derivatives with interest rate and credit asset classes under SA-CCR under § __.114(i)(3)(i), such that offsetting across repo-style transactions and derivatives in these asset classes would not be recognized correctly. For example, § __.114(i)(3)(i) specifies that the supervisory delta should be 1 if the fair value of the derivative increases when the primary risk factor increases. Generally, for interest rate and credit spread risk ("**CSR**") class the primary risk factor would be the yield or the credit spread curve. Accordingly, a fixed-for-floating interest rate swap would have a supervisory delta of 1 since when the yield curve increases the derivative fair value would increase. A repurchase transaction should be represented in the potential future exposure ("**PFE**") calculation as a forward purchase of the security collateral because a higher yield would decrease, not increase the fair value of such a derivative transaction. Accordingly, in these circumstances the supervisory delta should be -1, not 1 as prescribed in the Proposal.

The determination of the supervisory delta for repo-style transactions and eligible margin loans (if the scope of extended SA-CCR is expanded to include eligible margin loans) should be revised to align with the supervisory delta under § __.114(i)(3)(i) where the supervisory delta adjustment is 1 if the fair value of the derivative contract increases when the value of the primary risk factor increases and -1 if the fair value of the derivative contract decreases when the value of the primary risk factor increases. Specifically, received security collateral, as in the case of a reverse repurchase transaction, would be reflected as a forward sale of the underlying security and posted security collateral, as in the case of a purchase transaction, would be reflected as a forward purchase of the underlying security.

B. The determination of maturity dates for purposes of the maturity ratio should be clarified.

The Proposal defines the MR factor as "the ratio of the notional average weighted maturity of the repo-style transactions to the notional average weighted maturity of the derivatives contracts or repo-style transactions within the cross-product netting set, whichever is longer."[93]

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92 § __.114(a)(2)(ii).

93 91 Fed. Reg. at 14,985.

The Agencies should clarify that, for purposes of calculating MR specifically for settled-to-market ("**STM**") derivatives contracts where the fair value of the derivatives contract is reset to zero, the remaining maturity of the derivative contract is the period until the next reset date, irrespective of whether these transactions will be treated as collateralized-to-market ("**CTM**") in the PFE calculation in order to net against other CTM transactions. This is consistent with the current advanced approaches when using SA-CCR for purposes of determining the risk weight, but since MR would be a new term introduced in the context of Extended SA-CCR, the Agencies should clarify this treatment.

II. Market Risk: FRTB-SA

A. The scope of the RRAO should be clarified and should permit alternative calculations.

1. The Agencies should permit banking organizations to use alternative RRAO calculations for positions that produce disproportionate capital charges under the RRAO framework.

Under the residual risk add-on ("**RRAO**") framework, a banking organization is required to weight the gross effective notional amount of a market risk covered position by 1 percent for market risk covered positions that have an exotic exposure, and by 0.1 percent for market risk covered positions with other residual risks.[94]

To better capture the risk of these exposures, the Agencies should allow banking organizations to identify risks in scope for RRAO that demonstrably produce disproportionate capital requirements relative to actual risk, and submit for approval a methodology, including using a notional amount that is different from the notional amount reported in the FR Y-9C, that sets appropriate capital for these risks. That approach would be consistent with the permissions regime adopted by the U.K. Prudential Regulation Authority ("**PRA**") under its Basel 3.1 final rules[95] and with the capital treatment of de minimis exposures under the current market risk capital rules.[96]

2. The Agencies should resolve the inconsistency between the preamble and the rules text in relation to the application of RRAO.

The proposed rules text provides an exclusion from the residual risk add on for market risk covered positions "that are options without path dependent pay-offs or with two or

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94 § __.211(c)(1).

95 PRA Basel 3.1: Final Rules, PS1/26_Article 325u(4a)

96 § __.204(a)(2)(vi) of current U.S. capital rules.

fewer underlyings."[97] In contrast, the relevant discussion of this RRAO exclusion in the preamble provides that an option may be excluded if it "has two or fewer underlying positions and does not contain path dependent pay-offs."[98] Under the proposed rules text, the RRAO exclusion would apply in either situation, whereas the preamble appears to suggest that both conditions need to be satisfied for the RRAO exclusion to apply.

The Agencies should specify that a position is excluded from the RRAO if the position either has two or fewer underlying positions or does not contain path dependent pay-offs, consistent with the proposed rules text, in order to limit the scope of the RRAO to genuinely exotic risks consistent with economic reality.

3. The residual risk add-on should be computed on a consolidated basis, allowing netting of notional amounts between positions with identical terms.

Under the proposed RRAO framework, where a market risk covered position is a transaction that exactly matches with a third-party transaction (back-to-back transactions), a banking organization may exclude both transactions from the residual risk add-on.[99]

The Agencies should clarify that different notionals between the transaction(s) on one side and the transaction(s) on the other side would not on their own disqualify transactions to be considered exactly matched / back-to-back in proportion of the notional size that is identical. For example, when a banking organization is long transaction 1 with a notional of 100 and short transactions 2 and 3 with notionals of 20 and 30 where, other than the notional, the transaction would be exactly matched, the banking organization should be allowed to exclude 50 long and 50 short exposure from the RRAO charge and only capitalize the net open position of 50 in RRAO.

The Agencies should specify that the RRAO is computed on a consolidated basis as per the example above in respect of these back-to-back transactions that exactly match (other than notional amount).

4. A collection of instruments that does not have inherent residual risk should not be included within the residual risk add-on, including "Full Capital Structures."

When a collection of market risk covered positions, taken together, unambiguously removes all elements of the residual risk, that collection of positions should not be subject to the RRAO, even if the individual positions would have been in the scope of the RRAO. For example, a collection of tranches that perfectly replicates a portfolio of vanilla CDS

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97 § __.211(b)(1)(iii) (emphasis added).

98 91 Fed. Reg. at 15,049 (emphasis added).

99 § __.211(b)(2)(i).

(or "**Full Capital Structure**" transactions), which is economically equivalent to an index or single-name CDS position with respect to a non-tranched pool and does not bear inherent residual risk, should not be within the scope of the RRAO.[100]

5. The Agencies should clarify that volatility products are not classified as instruments bearing "Exotic Risk."

The Agencies should clarify that volatility products (e.g., volatility swaps or variance swaps) are not considered instruments bearing "exotic risk" since their exposures are already captured under SBM and exotic treatment applies only to positions that do not have risk that is captured under SBM or FRTB-DRC.[101]

B. Banking organizations should be permitted to apply alternative risk measures utilized in internal risk management without prior supervisory approval.

The proposal would require prior supervisory approval before a banking organization may calculate delta sensitivities, vega sensitivities, and curvature scenarios using an alternative basis both under § __.207(a)(4) and for SA-CVA. This approval requirement creates significant operational uncertainty and burden that outweighs any supervisory benefit.

Banking organizations should be permitted to use delta, vega, and curvature risk measures ("risk measures") as inputs to market risk and CVA capital calculations without prior approval from the Agencies, provided that:

- The risk measures are generated by pricing models, as defined in the Proposal, using methodologies that have been validated by an independent internal function consistent with the model risk management standards already required under the proposal;
- The risk measures are close approximations of the regulatory prescribed risk measure definitions; and
- The risk measures are used for risk management as part of risk monitoring and reporting by independent risk control units.

Banking organizations have a robust oversight process in place to monitor model performance and stability of sensitivities that are used for risk management, capital and P&L reporting. Thus, requiring case-by-case approval for risk measures that already meet these

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100 2024 ISDA/SIFMA Letter at p. 41.

101 *Question 141: Would characterizing volatility and variance swaps as bearing other residual risk more appropriately reflect the risks of such exposures and why?*

standards would impose significant operational burdens without a commensurate supervisory benefit.

III. Market Risk: FRTB-IMA

A. The SES stress window should be aligned with the stress window used for the purposes of the ES calculation.

The preamble to the Proposal provides that, for purposes of the SES calculation, a banking organization may "apply the same twelve-month historical stress period used to calculate [the internally modelled capital calculation ("**IMCC**")] for purposes of the common twelve-month historical stress period used for each risk class within the SES calculation."[102] However, the proposed rules text does not clearly include this formulation and, in respect of the stress period for purposes of the SES calculation, provides that the banking organization "must select a common 12-month period of stress for all non-modellable risk factors in the same risk class."[103]

Accordingly, the rules text should specify that a banking organization may align the SES stress window with the stress window used in the ES calculation.

B. The FRTB-IMA treatment for fund positions should be simplified.

The Proposal provides that a banking organization may apply FRTB-IMA in respect of equity positions in investment funds for which the banking organization can identify the underlying positions held by the investment fund on a quarterly basis. The Proposal further requires the banking organization to obtain supervisory approval before applying an alternative modelling approach for such positions.[104]

These requirements would impose unnecessary operational burden along with the potential for inconsistent outcomes under IMA. Therefore, in line with the trading book/banking book boundary requirements, a banking organization should also be permitted to model an equity position in an investment fund if the banking organization has access to the investment fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments and investment limits, and obtains daily price quotes for the investment fund.

Additionally, supervisory approval should not be required for a banking organization to apply alternative modeling approaches for equity positions in investment funds as these should be subject to standard model governance requirements.

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102 91 Fed. Reg. at 15,061.

103 § __.215(d)(1)(i)(A).

104 § __.205(d)(2)(iii).

C. A banking organization should not be required to take into account the maturity of a covered position in determining the liquidity horizon.

Under the proposed rules text, if the maturity of a market risk covered position is shorter than the applicable liquidity horizon for the position specified under the Proposal, the minimum liquidity horizon for the position would be calculated as the next longer liquidity horizon from the maturity of the market risk covered position.[105] However, the preamble to the Proposal includes an example that, for an investment grade corporate bond that matures in nineteen days, the proposal would assign the credit spread risk factor a liquidity horizon of twenty days rather than the forty-day liquidity horizon that otherwise would apply.[106]

Accordingly, the final rule should explicitly clarify that a banking organization is permitted—but not required—to take into account the maturity of a market risk covered position for purposes of determining the appropriate liquidity horizon for the position.[107] A requirement for a banking organization to assign the liquidity horizon based on maturity would result in substantial operational and computational burdens, as the banking organization would need to assign numerous liquidity horizons to the same risk factor given the typically large volume of trading positions and large number of potential maturity dates.

IV. Market Risk: Other FRTB Topics

A. The frequency of FRTB-SA calculations should be reduced and the aggregation of FRTB-SA and FRTB-IMA should be clarified.

The Proposal would require FRTB-SA to be calculated at least weekly and FRTB-IMA to be calculated daily.[108]

A requirement for banking organizations to conduct weekly FRTB-SA calculations would require additional monitoring and controls procedures that would create significant operational burdens in light of the complexity of the calculation. Accordingly, banking organizations should be permitted to calculate FRTB-SA on a monthly basis. In addition, the rules text should clarify that the FRTB-SA inputs to the FRTB-IMA formula align with the frequency of FRTB-SA to avoid unnecessary complexity. In particular, a banking organization should not be required to compute FRTB-SA more frequently under FRTB-IMA.

With respect to FRTB-IMA, the requirement should be to calculate FRTB-IMA on at least a weekly basis, which would permit a banking organization to determine FRTB-IMA

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105 § __.215(b)(11)(ii).

106 91 Fed. Reg. at 15,059.

107 2024 ISDA/SIFMA Letter at p. 63.

108 § __.204(a)(1).

using a cadence that is more frequent than weekly (e.g., daily) if appropriate consistent with the EU implementation.

B. The final rule should clarify that a banking organization may align market risk capital and Volcker Rule trading desks or designate more granular market risk capital units.

The Proposal references that, under the Volcker Rule, the definition of "trading account" includes market risk covered positions that are trading positions and notes that the proposed revisions to the market risk covered position definition "could alter the scope of financial instruments deemed to be in the trading account under the Volcker Rule."[109]

In addition, the proposed definition of "trading desk" refers to "a unit of organization . . . that purchases or sells market risk covered positions."[110] This proposed definition would not align with the trading account definition in the Volcker Rule, in respect of which a trading desk may hold banking book positions such as holdings of a public company's stock that has gone private, repo-style transactions, and other non-trading activities (e.g., lending). The misalignment between the proposed trading desk and trading account definitions would result in substantial operational burdens given that banking organizations in effect would need to remove banking book positions given the restrictive "trading desk" proposed definition.

A banking organization should be permitted to align trading desks for purposes of applying market risk requirements with its Volcker Rule trading desks or to define trading desks at a more granular level for purposes of FRTB-IMA, particularly given that some instruments (e.g., non-public equities) would not meet the definition of market risk covered position. The Agencies should specify that banking organizations are permitted to structure more granular trading desks for FRTB purposes and that the additional granularity would not result in additional requirements for purposes of the Volcker Rule.[111]

Further, a banking organization should be permitted to merge or separate FRTB trading desks that have been approved for FRTB purposes without obtaining an additional supervisory approval. This recommended approach would preserve flexibility and reduce operational burdens in complying with FRTB and Volcker Rule requirements and would be consistent with the EU framework.

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109 91 Fed. Reg. at 15,026, n. 287. *Question 115: What, if any, changes should the agencies consider making to the definition of a trading desk and why? What, if any, other key factors do banking organizations typically use to define trading desks for business purposes that the agencies should consider including in the trading desk definition to clarify the designation of trading desks for purposes of the market risk capital framework?*

110 § __.202(b).

111 2024 ISDA/SIFMA Letter at pp. 74-75.

V. General

A. The definition of investment grade should be refined.

The Proposal would assign a 65 percent risk weight to an investment grade exposure. For these purposes, "investment grade" is defined as an entity "to which the banking organization is exposed through a loan or security."[112] The "investment grade" definition should not refer narrowly to "a loan or security" because that could exclude circumstances in which a banking organization has an exposure through other types of transactions, including derivatives and repo-style transactions.

B. The rules text should clarify the scope of exclusions from adjusting haircuts upward with respect to cleared transactions.

Under the Proposal, a banking organization must adjust the haircuts "upward on the basis of a holding period longer than ten business days for eligible margin loans or a holding period longer than five business days for repo-style transactions that are not cleared transactions" in specified conditions, including when the number of trades in a netting set exceeds 5,000 or the netting set contains one or more trades involving illiquid collateral.[113] In contrast, § __.114(i)(4)(i)(B)(3) would apply an exclusion from applying the upward haircut adjustments in respect of cleared transactions only under the condition in which the trades in a netting set exceed 5,000 which is consistent also with the current standardized approach.

Because the Proposal appears to apply the exclusion of triggers to increase the margin period of risk ("**MPOR**") and holding period as it relates to cleared transactions inconsistently across SA-CCR and the collateral haircut approach, the Agencies should specify whether this was the intended result.

C. The final rule should correct the cross-references in the "exposure amount" definition.

The Agencies should revise the proposed definition of "exposure amount" to appropriately reference the collateral haircut approach rules text under the expanded risk-based approach.

In particular, the fourth prong of the proposed definition would provide the calculation methodology for the exposure amount of the off-balance sheet component of an exposure other than, among other things, "a repo-style transaction or an eligible margin loan for

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[112] 91. Fed. Reg. at 14,965 n.74; § __.2 of current capital rules.

[113] § __.115(c)(4) (emphasis added).

which the [banking organization] calculates the exposure amount under § __.37 or § __.121, as applicable."[114]

However, both the first and seventh prongs of the proposed definition would refer to "a repo-style transaction or an eligible margin loan for which the banking organization determines the exposure amount under § __.37, §§ __.113 through __.115, or § __.121, as applicable." Because the exposure amount for the off-balance sheet component of a repo-style transaction or an eligible margin loan may also be calculated using the counterparty credit risk methods in §§ __.113 through __.115, the final rule should correct the cross-reference in the fourth prong to also refer to §§ __.113 through __.115, consistent with the first and seventh prongs in the definition. The Agencies should also remove the reference to §__.121 in these paragraphs as that section addresses risk weight substitution, not the calculation of the exposure amount.

[114] § __.2.

Responses to Specific Questions in the Proposal

SA-CCR [115]

Question 40: What would be the advantages or disadvantages of allowing banking organizations to apply the higher factor of 1.4 for all derivative transactions, rather than having to distinguish based on whether the counterparty qualifies as a commercial end-user? Please provide any rationale or data that may be helpful for the agencies to consider.

The Associations support maintaining the ability for banking organizations to apply a 1.0 alpha factor to commercial end-user counterparties. As described in prior advocacy of the Associations [116] as well as commercial end-users more broadly, [117] it is critical for capital requirements in respect of derivatives transactions with commercial end-user counterparties to be appropriately calibrated so as not to unduly increase the costs of hedging for these counterparties, which would have downstream effects on market liquidity, economic growth and small businesses.

Question 41: For purposes of the supplementary leverage ratio, the proposal would not modify SA-CCR to recognize qualifying cross-product master netting agreements for non-cleared transactions or to incorporate certain non-cleared (including client-facing) repo-style transactions, given that it is meant to serve as a non-risk-based measure. What are the advantages and disadvantages of modifying the supplementary leverage ratio to recognize such cross-product netting? If the agencies were to consider such recognition, what if any adjustments to the measure should be considered to align with the supplementary leverage ratio's non-risk-based nature and why?

The Associations appreciate the principled difference between the risk-based measure underlying RWAs and the non risk-based measure underlying the supplementary leverage ratio ("**SLR**"). Any on-balance sheet exposure under SLR is generally calculated in alignment with accounting principles with strict requirements as it relates to collateral netting and is fundamentally different and not comparable to a risk-based calculation. As a result, cross-product netting would not apply to the on-balance sheet component of SLR, unless accounting rules were to change.

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115 These recommendations also would apply in the context of a banking organization that elects to use SA-CCR in respect of the Standardized Approach Proposal.

116 See, e.g., Letter from ISDA, SIFMA, American Bankers Association, the Bank Policy Institute and the Futures Industry Association to the Agencies re: Standardized Approach for Counterparty Credit Risk (Mar. 18, 2019), available at https://assets.isda.org/media/f65b78a9/ab3a9b4d-pdf.

117 See, e.g., Letter from the Coalition for Derivatives End-Users to the Agencies re: Comment to Notice of Proposed Rulemaking – Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (Mar. 18, 2019), available at https://www.federalreserve.gov/SECRS/2019/March/20190320/R-1629/R-1629_031819_133558_425805351312_1.pdf.

Even in relation to the off-balance sheet exposure, SLR is not fully aligned with the risk-based calculation. While for client-facing derivative transactions, the exposure (EAD) is generally the same across SLR and RWA, this is not the case for repo-style transactions or even the PFE component for bilateral or cleared derivative transactions. As a result, applying the cross-product netting formula, even in the form of "EAD Recommended," could lead to higher exposures under SLR, which would not be a sensible outcome.

However, the U.S. Treasury clearing mandate will have profound impacts and its implications may not be clear yet, which may require future evaluations to what extent further changes to the SLR and GSIB surcharge are needed.

Question 45: What are the advantages and disadvantages of permitting banking organizations to treat bilateral settled-to-market derivative transactions as collateralized-to-market derivative transactions for purposes of SA-CCR?

The Proposal would amend the current SA-CCR framework to permit a banking organization to elect to treat an STM derivative contract that is either a cleared transaction or a client-facing derivative transaction as CTM.[118] This treatment also would apply in respect of a qualifying cross-product master netting agreement that consists of derivative contracts and repo-style transactions. The Associations strongly support extending the current election to include client-facing derivative transactions, which would be critical to implement cross-product netting for derivative contracts and repo-style transactions.[119]

In addition, bilateral STM transactions also should be eligible for this election because, similar to cleared transactions or client-facing transactions, given that bilateral STM transactions are functionally, legally and economically equivalent to STM transactions in a cleared or client cleared context. For example, SwapAgent Limited provides settlement and related services for OTC derivatives where banks can elect to have their derivative transactions settled-to-market.

Based on the QIS, the impact from allowing STM trades at netting set level to be treated as CTM for bilateral exposures is a decrease in CCR ERBA RWA of 0.2 percent,[120] which corresponds to an RWA impact of $2 billion.[121]

Question 46: What are the advantages and disadvantages of recognizing the benefits of cross-margining arrangements, for Kccp purposes, under the capital rule? / Question 48: What revisions, if any, should the agencies make to the cleared transactions framework in

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118 § __.114(e)(5).

119 91 Fed. Reg. at 14,985-86.

120 See Appendix 1 – Quantitative Impact Study Results, Index SFT_Derivs_06.

121 See Appendix 1 – Quantitative Impact Study Results, Index SACCR_04.

consideration of cross-margining agreements? What are the advantages and disadvantages of extending recognition of cross-margining agreements for default fund contribution capital requirements to cleared transaction capital requirements?

The preamble to the Proposal addresses that, under the current capital rule, clearing member banking organizations are not able to reflect the risk offsets inherent in cross margining arrangements when determining capital requirements for default fund contributions to qualifying central counterparties ("**QCCPs**"), which could require banking organizations to hold additional capital when engaging in these activities.[122]

The Associations broadly support modifying the capital treatment of QCCP default fund contributions to appropriately reflect the risk-reducing benefits of QCCP cross-margining arrangements based on the methodology described in the preamble to the Proposal. The Associations agree that such arrangements will likely increase in size and scope over time.

Ultimately, Kccp, which forms the basis for capital requirements for default fund contributions, should reflect the CCP's credit risk arising from trade exposures to its members based on the standardized exposure calculations. Reductions in initial margin requirements because of cross-margining arrangements are reflective of effective loss sharing arrangements that recognize the diversification and netting benefits of transactions subject to these arrangements and effectively reduce the risk to the CCP. Given that financial resources such as initial margin flow through the Kccp formula, any reduction of those financial resources would result in an increase in Kccp and ultimately the risk weight associated with default fund contributions that banking organizations need to assign unless the risk reduction is also reflected in the EAD calculations that get aggregated into the Kccp formula.

Question 47: If the agencies were to permit recognition of offsetting positions that are facilitated by cross-margining agreements among QCCPs that satisfy certain criteria, what criteria and operational requirements should the agencies establish for a qualifying cross-margining agreement? For example, should the agencies require that a qualifying cross-margining agreement be approved by the QCCPs' primary regulator or regulators? Alternatively, should the agencies require that banking organizations receive a legal opinion verifying the validity and enforceability of the agreement under applicable law of the relevant jurisdictions, or that banking organizations conduct sufficient legal review, including ongoing due diligence, to have a well-founded basis for concluding the agreement would be enforceable under applicable law?

ISDA, SIFMA and the Futures Industry Association ("**FIA**") discussed the concept of a "qualifying cross-margining arrangement" in a white paper under which the expanded SA-CCR methodology could be applied when calculating Kccp as an input to capital

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122 91 Fed. Reg. at 14,986.

requirements for default fund contributions.[123] One of the proposed conditions for such a qualifying arrangement is that "the cross-margining arrangement must have been approved by the applicable regulator for each CCP." The Associations consider this the most effective and efficient way to ensure that the arrangement can be made, as the primary regulator would review it closely in any case and would ensure its appropriateness.

The Associations highlight that the Kccp calculation is performed by the respective CCPs, not the clearing members as the clearing members do not have visibility of all transactions the CCP has with its members. Clearing members receive Kccp figures from the CCPs as an input into the risk weight against default fund contributions and have no visibility and no role in the calculation. Furthermore, the clearing members are not directly part of the cross-margining arrangement across the CCPs that form the basis for loss sharing arrangements and therefore would not be able to perform the required legal analysis. CCPs and their primary regulators are already responsible for ensuring legal enforceability in line with Principle 1 (Legal Basis) of the Principles for Financial Market Infrastructures and as such any additional legal opinions would be redundant and unnecessary.

Question 49: What alternatives to the allocation factor described in the proposed formula for the hypothetical capital requirement for cross-margined portfolios should the agencies consider and why?

The cross-product netting formula would need to be revised for the purpose of the Kccp calculation. Related to the allocation factor, the Associations believe that that a notional-based allocation is insufficiently risk sensitive and not reflective of the effective loss sharing arrangement. The Associations believe that the most risk sensitive approach would be for the QCCPs to determine the allocation factor based on how any losses would be shared between the QCCPs in relation to exposures subject to a qualifying cross-margining arrangement in case of a member default. Given that the Kccp calculation is performed by QCCPs, not member banks, such a methodology would still ensure that risk weights that different banking organizations assign to their default fund contributions would still be based on the same allocation factor for a given qualifying cross-margining arrangement even if that allocation factor would be bespoke for that arrangement.

Should the agencies prefer a standardized allocation factor across different qualifying cross-margining arrangements, we would propose, as a fallback solution, to calculate the allocation factor based on the SA-CCR aggregated amount, i.e.,:

$$AllocationFactor_{i,j} = \frac{A_{i,j}}{\sum A_{i,j}}$$

[123] ISDA, FIA, SIFMA, Discussion Paper: CCP Cross-Margining Arrangements Default Fund Contributions Under the U.S. Regulatory Capital Rule (July 14, 2025), available at https://www.isda.org/a/10pgE/Paper-on-Treatment-of-Banking-Organization-Contributions-to-a-QCCP-Default-Fund.pdf.

Compared to a notional-based allocation factor calculation, this formula would more appropriately recognize risk offsets within a single CCP's position and reflect the relative riskiness of the position by, for example, incorporating the supervisory duration.

Market Risk: General

Question 95: The agencies seek comment on the recognition of diversification benefits between model eligible and model-ineligible positions across trading desks. What are the advantages and disadvantages of requiring a banking organization to calculate the models-based non-default capital requirement as the sum of the models-based non-default capital requirement for model-eligible positions ($IMA_{G,A}$) and the adjusted standardized non-default capital requirement for model ineligible positions ($SA_{all\ desks}$-$SA_{G,A}$) and why? If the agencies were to consider not recognizing any diversification benefits between model-eligible and model-ineligible positions across trading desks, should the agencies consider adopting the following formula:

Models Based Non-Default Capital Requirement = min(($IMA_{G,A+PLA}$ add-on + $SA_{U)}$, $SA_{all\ desks}$) + max (($IMA_{G,A}$--$SA_{G,A}$),0)

What are the advantages and disadvantages of calculating the models-based non-default capital requirement as the sum of the models-based non-default capital requirement for model-eligible trading desks and the standardized non-default capital requirement for model-ineligible trading desks, capped at the capital requirement for all trading desks under the standardized non-default capital requirement, plus the difference between the models-based non-default capital requirement for model-eligible desks and the standardized non-default capital requirement for model-eligible desks? If the agencies were to consider this alternative, what adjustments should be made? Why? Please include any supporting empirical data, including during periods of market stress, and rationale that would be helpful for evaluating this alternative.

The Associations support the formula in the Proposal as it would recognize the diversification benefits between model eligible and model ineligible positions across trading desks. Previous studies have demonstrated that when a firmwide portfolio is split between IMA and SA, diversification losses occur in both measures. Consequently, the framework should incorporate a mechanism that allows banking organizations to realize capital outcomes that are proportional to the exposure that has been modeled. The formula in the Proposal would accomplish that by capitalizing the non-modeled exposure based on its marginal contribution and thereby eliminating the diversification "penalty" that occurs in a FRTB-IMA/SA hybrid scenario.

Question 96: The agencies seek comment on allowing a banking organization to cap the non-default risk capital requirement under the models-based measure at the amount required by the standardized non-default capital requirement for all trading desks upon approval by the primary Federal supervisor. What are the advantages and disadvantages of the proposed cap, and why? If the agencies were to consider allowing the cap to be in effect in all circumstances, without prior approval, what are the advantages and disadvantages of the proposed supervisory

approval requirement, and why? Commenters are encouraged to provide supporting rationale and data.

The Associations support capping the FRTB-IMA requirements at the FRTB-SA level for all trading desks to provide appropriate incentives for banking organizations to make the necessary investments to develop and improve models and procedures to apply the FRTB-IMA, which could benefit both banking organizations and supervisors in enhancing the understanding of market risk, model risks and related processes fundamental to promoting sound risk management practices.[124] However, this cap should apply automatically and should not be subject to supervisory approval. This approval requirement would weaken the effectiveness of the cap and introduce uncertainty and operational burdens in implementation as the supervisory considerations for obtaining an approval are not specified and it is not clear how this would be applied if the cap is required for a period of time.

Question 99: What are the advantages and disadvantages of asking a banking organization to notify its primary Federal supervisor if the banking organization has derivative positions that represent more than de-minimis exposure and it plans to use an alternative methodology to calculate the fallback capital requirement, and why? What are the advantages and disadvantages of requiring a banking organization to notify its primary Federal supervisor, and why?

The scope of the fallback capital requirement should be limited to cases of persistent unavailability of models or data required to calculate the models-based or standardized non-default capital requirement or FRTB-DRC. These include cases such as a banking organization's model being consistently unable to price a position over an extended period or a banking organization not having supervisory approval to use a particular model for a position (e.g., in the case of a new product), such that the fallback requirement would not include temporary operational disruptions and isolated calculation failures.

Under this recommendation, a banking organization would document and maintain records of fallback triggers to demonstrate satisfaction of these criteria, subject to supervisory review. In general, the references to operational issues or calculation failures could inadvertently capture temporary pricing failures that do not reflect structural model limitations and that would not be appropriate to capture in the fallback capital requirement. As such, only if there are derivative positions that represent more than de-minimis exposures that must be included in the fallback capital requirement due to persistent model or data unavailability as defined above should the banking organization notify its primary Federal supervisor.

Additionally, when the fallback capital treatment is triggered, a banking organization would be required to exclude positions subject to the fallback capital requirement

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124 2024 ISDA/SIFMA Letter at p. 58.

from the SBM and DRC measures.[125] However, that approach may not be aligned with risk to remove all risk factors from the capital calculation, such as when a risk included in capital calculations is part of a hedging strategy where removing the risk results in hedge breakage and a related increase in capital. Accordingly, § __.204(e)(2)(i) should be revised to provide that a banking organization may—but is not required to—remove the remaining risk factors from the capital calculations.

Question 100: What, if any, operational challenges could the proposed capital add-on calculation pose? What, if any, changes should the agencies consider making to the proposed exceptions to the capital add-on, such as to address additional circumstances in which the capital add-ons for re-designations should not apply, and why? For example, what would be advantages and disadvantages of exempting transactions in high quality liquid assets (HQLA) between a business unit of a banking organization that engages in asset-liability management and internal trading desk from the re-designation framework, and why?

The proposed capital add-on for re-designations would provide limited exceptions from the add-on for circumstances outside the banking organization's control.[126] The rules text should specify that a banking business engaging in asset-liability management ("**ALM**") in an arm's-length transaction is not subject to the re-designation requirements. The re-designation framework should not apply to transactions in high quality liquid assets ("**HQLA**"), in particular domestic Level 1 and Level 2A HQLA issued by domestic entities, USD-denominated Level 1 and Level 2A HQLA issued by foreign entities and foreign currency-denominated Level 1 and Level 2A HQLA issued by non-U.S. entities.[127] This would broadly align the objectives of prudential regulations across different frameworks in an efficient manner. Prudential liquidity rules require central ALM functions to hold HQLA and redesignation requirements would make it difficult to source those from internal desks. This recommended exemption would permit efficient management of those resources while not unnecessarily increasing dependency and interconnectedness with other banks and is consistent with other jurisdictions, including Canada.[128]

The advantage of the proposed capital add-on for re-designations is that banks could continue their current ALM processes which incorporate operational efficiencies of the ALM function obtaining transactions from the trading desk. The disadvantages of not allowing the proposed capital add-on is it that it would likely result in ALM functions having to trade with

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125 § __.204(e)(2)(i).

126 § __.204(f).

127 2024 ISDA/SIFMA Letter at p. 76.

128 Capital Adequacy Requirements (CAR) (2026) – Chapter 9 – Market Risk – Office of the Superintendent of Financial Institutions.

third parties, which could run counter to other regulatory objectives, in particular reducing interconnectedness.

Question 101: The agencies seek comment on whether the re-designation framework should include a grace period (for example, 10 business days) that would allow a banking organization to identify and correct any errors during the initial re-designation process. What are the advantages and disadvantages of the grace period and why?

The rules text should specify that error correction is not subject to the re-designation framework. A banking organization should be given a grace period in connection with internal controls and governance processes when determining the appropriate designation. If a banking organization identifies and corrects an error during this process, that should be viewed as a correction of the initial designation, not as a re-designation subject to an add-on. [129]

Question 102: The agencies seek comment on the appropriateness of the proposed definition of market risk covered position. What, if any, practical challenges might the proposed definition pose for banking organizations, such as the ability to fair value daily any of the proposed instruments that would be captured by the definition?

The proposed definition of a market risk covered position under the Proposal would not permit certain offsetting, equity intermediation positions to be capitalized in the trading book. More specifically, offsetting intermediation positions referencing non-publicly traded equities or equity investment funds that do not fit within paragraph (2)(vi)(A) or (2)(vi)(B) of the market risk covered position definition, or investment funds that hold a material amount of exposures noted in (2)(i) through (2)(xi) of the definition, would be required to be capitalized in the banking book. These market-making, client-driven trades are typically structured as matched long/short exposures with little to no net economic risk. Treating these positions as subject to the banking book would produce punitive capital outcomes that do not reflect their risk-flat nature, discourage client facilitation, reduce market liquidity, and impair risk transfer in private-capital-linked markets.

For offsetting equity intermediation positions that do not meet the proposed definition of a market risk covered position as noted above, the Agencies should consider allowing banks to capitalize these positions under the market risk framework through a dedicated notional trading desk on a standalone basis similar to the internal risk transfer framework for interest rate risk. The establishment of such a notional trading desk would be subject to supervisory review and approval; would hold only client-driven, economically offsetting long/short positions that are demonstrably risk flat on a net basis (with defined eligibility criteria, similar to the construct in the current market risk rules section § __.210(a)(4)); and would be subject to trading desk governance and risk management requirements. This treatment would better align capital with how a banking organization risk manages these positions and

[129] 2024 ISDA/SIFMA Letter at p. 76.

the economic risk profile of these positions, and it would support client facilitation and market liquidity as well as avoid punitive banking book capital treatment.

Question 108: The agencies seek comment on any operational challenges of the proposed internal risk transfer framework, in particular any potential difficulties related to internal risk transfers executed before implementation of the proposed market risk capital rule. What is the nature of such difficulties and how could they be mitigated?

Internal risk transfers ("**IRT**"), particularly relating to interest rates, executed prior to the effective date of a final rule should be excluded from the FRTB IRT requirements. Otherwise all of the legacy trades for interest rate IRT in particular would need to be unwound and re-booked through the centralized IRT desk, which would create a significant operational burden.

Market Risk: FRTB-SA

Question 119: The agencies seek comment on the sensitivities-based method for market risk. To what extent does the sensitivities-based method appropriately capture the risks of positions subject to the market risk capital requirement? What additional features, adjustments (such as to the treatment of diversification of risks), or alternative methodology could the sensitivities-based method include to reflect these risks more appropriately and why? Commenters are encouraged to provide supporting data.

To determine the overall capital requirement for each of the three correlation scenarios in SBM (high, medium, and low correlations between risk factors shocks) under FRTB-SA, a banking organization would sum the separately calculated delta, vega, and curvature for all risk classes without recognition of any diversification benefits. The Proposal states that this approach would recognize that these sensitivities are intended to capture different risks. [130]

The proposed SBM would not appropriately recognize the benefits of diversification between asset classes. A correlation parameter should be introduced to more appropriately recognize diversification across asset classes within SBM and avoid an over calibration of capital requirements for market risks. Specifically, the framework should include an inter-risk class correlation parameter of 0.5, in accordance with the following formula, which would result in some recognition of diversification and better align capital requirements with actual economic risks.

$$capital\ requirement = \sqrt{\sum_{b} SBM_b^2 \ + \sum_{b}\sum_{c \neq b} \rho_{bc} SBM_b SBM_c} + DRC + RRAO$$

130 91 Fed. Reg. at 15,038.

Under this approach, SBM_b would represent the risk class-level capital requirement for each risk class and ρ_{bc} would represent a new inter-asset class correlation parameter or parameter set. Historical correlation analysis across asset classes indicates that, since 2008, correlation levels have remained stable even during periods of market stress. This recommendation also applies to SA-CVA, as referenced in the response to Question 192.

Introducing an inter-risk class correlation parameter of 0.5 would result in a 13 percent [131] reduction in FRTB-SA, corresponding to a $92 billion [132] RWA reduction in total FRTB RWA assuming FRTB-SA is applied for all desks.

Question 123: For consistency with flooring credit spreads at zero when the downward shock for curvature results in negative credit spreads, the agencies seek comment on whether the agencies should allow banking organizations to cap the level of shock (for example, RWKCurvature) at the difference between the current level of the credit spread risk curvature risk factor and zero when calculating the curvature risk. What would be advantages and disadvantages of this cap and why?

Banking organizations should be provided the option to cap the level of the upward shock for curvature at the difference between the current credit spread level and zero. This will make the upward shocks more proportionate to the floored downward shock and more appropriate to the spread risk level.

Question 126: The agencies seek comment on the treatment of certain sovereign exposures. What would be the advantages and disadvantages of applying a zero percent credit spread risk weight to short-term (less than one year) U.S. sovereign exposures such as U.S. Treasury securities that are investment grade, and why? What, if any, alternative risk weight treatment should the agencies consider for sovereign exposures that are primarily exposed to interest rate risk, rather than credit spread risk, and why?

Under the Proposal, sovereign exposures would not be excluded from the sensitivities-based method under FRTB-SA. [133] The Associations recommend that all exposures that receive a 0 percent risk weight under the proposed standardized credit risk approach, particularly exposures to an OECD sovereign with no CRC or a CRC between 0 and 1, including U.S. sovereign exposures, should be exempt from credit spread risk capital requirements under FRTB-SA. This would better reflect that these exposures are often risk managed as rates products and used as interest rate hedges.

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131 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_24.

132 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_25.

133 Table 3 to § __.209.

Based on the QIS, the marginal impact to CSR Non-securitization SBM of excluding sovereign exposures including U.S. Treasuries, supranational exposures and MDB exposures receiving a 0 percent risk weight is a reduction of 4 percent. [134]

The RWA impact corresponding to these changes is $3 billion. [135]

Based on the QIS, the marginal impact to CSR Non-securitization SBM of excluding U.S. Treasuries is a reduction of 11 percent. [136]

Question 139: The agencies request comment on requiring banking organizations to apply a 35 percent correlation parameter for Uniform Mortgage Backed Securities. What alternative correlation parameter should the agencies consider for Uniform Mortgage Backed Securities and why?

For purposes of credit spread risk for non-securitization and correlation trading positions, a banking organization would be permitted to treat Uniform Mortgage-Backed Securities ("**UMBS**")-eligible securities, including to-be-announced ("**TBA**") securities and UMBS-eligible pools, as exposures to a single obligor regardless of the UMBS-issuing entity. [137] In response to Question 139, the Agencies should not apply a 35 percent correlation parameter to UMBS. [138] The Associations agree both with the treatment in the Proposal that UMBS positions, including TBA securities and UMBS-eligible deliverable pools should be treated as a single obligor and the underlying rationale that no significant pricing differences have been observed in the UMBS market that would justify a correlation parameter of 35 percent to aggregate across such positions.

Market Risk: FRTB-IMA

Question 143: The agencies request comment on the appropriateness of the proposed requirements for the risk factors included in the models-based non-default capital requirement. What, if any, alternative requirements should the agencies consider, such as requiring risk factor coverage to align with the financial reporting models, and why? Specifically, please describe any operational challenges and impact on banking organizations' minimum capital requirements

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134 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_26.

135 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_27.

136 See Appendix 1 – Quantitative Impact Study Results, Index FRTB_28.

137 91 Fed. Reg. at 15,048.

138 2024 ISDA/SIFMA Letter at pp. 32-33.

that requiring the expected shortfall model to align with the financial reporting models would create relative to the proposal.

Risk factor coverage for the models-based non-default capital requirement should be based on a banking organization's internal risk management models and practices (such as those used for value-at-risk ("**VaR**"), Limits, Stress Testing etc.) and banking organizations should be allowed to include any additional risk factors required to meet model performance requirements.

Question 151: What, if any, operational challenges could the proposed quantitative test pose? What, if any, changes should the agencies consider making to the quantitative test, such as excluding risk factors from the quarterly real price observation requirement if the banking organization can demonstrate the substantial market depth and liquidity of such risk factors over time? What criteria (such as exchange listing criteria for the New York Stock Exchange) should the agencies consider to appropriately differentiate between risk factors with liquid and deep markets that should be subject to the qualitative test only once versus those that should be subject on a quarterly basis, and why?

The Associations support excluding risk factors derived from instruments traded in liquid and deep markets. Applying the proposed quantitative tests to such risk factors would unnecessarily diverge resources as banks would have to deal with large data sets given high trading volumes. At the same time, this would not result in any apparent benefits of meeting regulatory objectives of ensuring that risk factors are derived from instruments that have sufficient real price observations. Risk factors associated with such instruments will have those real price observations given the high trading volumes.

As Question 151 suggests, there are different ways to identify risk factors and the underlying instrument that observe liquid and deep markets. One way is to exclude risk factors associated with instruments from the risk factor eligibility test that are exchange traded or are clearing eligible, consistent with the proposed exemption from the residual risk add-on for market risk covered positions that are listed or eligible to be cleared. These markets offer highly standardized products with a minimum level of liquidity and minimum standards for the instruments to be eligible for listing or clearing.

An additional way would be to leverage the fair value measurement and hierarchy under U.S. GAAP where banks must categorize its fair valued instruments into Level 1, Level 2 and Level 3. This is an established and well-governed process that is already used within the GSIB framework (Level 3 asset identification). In this context, risk factors associated with instruments qualifying for Level 1 categorization should not be subject to the risk factor eligibility test. Level 1 is defined as having "[q]uoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date," where

an active markets is defined as a "market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis."[139]

Question 153: The agencies request comment on the appropriateness of requiring the election of either the direct or the indirect approach to be made at the entity-wide level for all risk factors of model-eligible positions on model-eligible trading desks. What, if any, alternatives should the agencies consider that would enable banking organizations' expected shortfall models to more accurately measure potential losses under the selected stress period, such as allowing banking organizations to make this election at the level of the trading desk, risk class, or risk factor?

Under the Proposal, the entity-wide liquidity horizon-adjusted ES-based measure based on a reduced set of risk factors would be required to explain at least 75 percent of the variability of the losses estimated by the liquidity horizon-adjusted ES-based measure in the relevant period for the full set of risk factors over the preceding 60 business days. This formula is unduly complex and could lead to unintended outcomes, in particular when the denominator is a small number.

The formula should be revised to instead require that the ratio of the liquidity horizon-adjusted ES measure for the reduced set of risk factors to the measure for the full set of risk factors average at least 75 percent over the preceding 60 business days as below.

$$\frac{1}{60}\sum_{h=t-60}^{t-1}\left(\frac{ES_{R,c,h}}{ES_{F,c,h}}\right) \geq 0.75$$

Question 155: The agencies request comment on the appropriateness of assigning a liquidity horizon for multi-underlying instruments based on the weighted average of the liquidity horizons for the risk factors corresponding to the underlying constituents and the respective weighting of each within the index. What, if any, alternative methodologies should the agencies consider, such as assigning the liquidity horizon for credit and equity indices based on the longest liquidity horizon applicable to the risk factors corresponding to the underlying constituents? What would be the benefits and drawbacks of such alternatives compared to the proposal? Commenters are encouraged to provide data to support their responses.

The approach of determining the liquidity horizon of a multi-underlying instrument via full decomposition and look-through of the underliers is operationally complex. Instead, a banking organization should be permitted to assign a liquidity horizon to the instrument based on the nature of its primary underliers—for example, based on investment grade of a credit index or developed markets ("**DM**")/EM and Large/Small cap for an equity index.

[139] Accounting Standards Codification (ASC) § 820-10-20 (Fin. Acct. Standards Bd. 2026).

Alternatively, a banking organization should be permitted to assign a liquidity horizon that is nearest to the weighted average liquidity horizon of all underlying constituents instead of assigning the next higher liquidity horizon from the weighted average. For example, in the case of an IG index, even if 1 of the 500 underliers is assigned a higher speculative grade liquidity horizon then the entire index would default to the higher speculative grade liquidity horizon instead of the IG liquidity horizon nearest to the weighted average liquidity horizon of the underlying constituents.

Question 157: The agencies seek comment on the appropriateness of requiring banking organizations to use the same reduced set of risk factors to both identify the appropriate twelvemonth historical stress period and calculate the IMCCs. To what extent does the proposed approach provide banking organizations sufficient flexibility to appropriately capture the risk factors that may be present in some, but not all stress periods? What, if any, alternative approaches should the agencies consider that would better serve to capture such risk factors relative to the proposal?

The banking organizations should be allowed to determine the appropriate twelve month stress period using the same, consistent reduced set of risk factors through all historical periods. However, once the stress period is determined, the banking organizations should have the option to use a different reduced set of risk factors for the ES(R,S) and the ES(R,C) calculations. This optionality would allow a banking organization to balance between a) the operational complexity of using a different reduced set of risk factors in the IMCC calculations vs. stress period determination, and b) utilizing the data available for a given stress period to the fullest extent. In addition, using a different reduced set for IMCC capitalization will be required to ensure that the 75 percent threshold criteria is met for reduced set ES to explain the full set ES.

Question 158: The agencies are considering options to define the largest loss when identifying the appropriate twelve-month historical stress period. For example, what are the advantages and disadvantages of defining the largest loss based on amounts banking organizations use for financial reporting, and why? What are the advantages and disadvantages of requiring firms to have policies and procedures approved by a banking organization's primary Federal supervisor to identify the twelve-month historical stress period during based on the largest loss, and why?

For determining the twelve-month stress period, the definition for "largest loss" that is used should be the maximum 10-day, fully diversified 97.5th percentile Expected Shortfall measure.

Question 162: The agencies seek comment on the proposed three-year transition period for the PLA test. What are the benefits and drawbacks of delaying for three years the automatic consequences of having PLA test results in the amber or red zones? To what extent does the proposed time period facilitate banking organizations' ability to gain experience with the tests

and address any potential gaps in data and model performance? Please provide any rationale that would be useful to consider for this purpose.

The Associations support the proposed three-year transition period for the profit and loss attribution ("**PLA**") test and strongly reiterate that supervisors should use the data collected during the three-year monitoring period to first assess whether the test is fit-for-purpose and if so, then what should be appropriate thresholds for determining amber and red zones.

Question 166: Should non-modellable risk factors be excluded from the proposed backtesting requirements? Why or why not? What, if any, further conditions should the agencies consider including to limit appropriately the inclusion of non-modellable risk factors for purposes of the backtesting requirements? Commenters are encouraged to provide data to support their responses.

Type A non-modellable risk factors should be included in the proposed backtesting requirements because the P&L driven by these risk factors will be part of hypothetical profit and loss ("**HPL**"), and hence if they are not included in ES that would result in artificial backtesting exceptions. Furthermore, to the extent that NMRFs are included in backtesting, banking organizations should retain the ability to use SES capital attributable to NMRFs to disregard backtesting exceptions arising from those risk factors.

Question 168: The agencies invite comment on whether notional desks that are model-eligible desks and primarily hold foreign exchange and commodity positions to hedge banking book exposures should be excluded from PLA testing and backtesting requirements. What would be the potential benefits and drawbacks of providing such an exclusion for these specific desk types? Would alternative treatment or modified requirements for these desks be more appropriate and if so, why?

These exposures use the same models used by similar exposures in the trading desks, and hence from a model performance perspective, it is sufficient for the banking organization to demonstrate backtesting and PLA test performance for the trading desks using FRTB-IMA.

Including notional desks in backtesting would create operational complications since the Foreign Exchange ("**FX**") and Commodity exposures arise from banking book positions that may not be fair-valued daily, and consequently any method to compute daily actual or hypothetical P&L's for only the FX and Commodity components of these positions will introduce substantial operating and maintenance costs. Exposures from notional trading desks relative to overall market risk exposures are expected to be relatively small. For a banking organization applying FRTB-IMA, the issues highlighted above could mean capitalizing these under FRTB-SA, leading to overly conservative capital requirements.

SA-CVA

Question 190: To what extent are the proposed buckets, risk weights, and correlations for counterparty credit spread risk class appropriate? What, if any, alternative bucketing structures, risk weights, or correlations should the agencies consider and why?

The proposed SA-CVA framework would not sufficiently recognize the benefits of index CDS hedges, which are common risk management tools for hedging CVA counterparty spread risk. In particular, these index hedges would be assigned a 1.5 percent risk weight under SA-CVA. That approach would result in more conservative treatment than under BA-CVA, which takes the average risk weight of constituents and provides incentives to apply more CVA risk hedges on riskier sectors.

Based on the QIS, the impact to SA-CVA of using BA-CVA indices risk weights is a 3 percent reduction. [140]

The RWA impact corresponding to these changes is $4 billion. [141]

Question 192: What, if any, alternative methods should the agencies consider for recognizing diversification across risk classes in the calculation of the SA-CVA, and why?

Consistent with the response to Question 119, a correlation parameter should be introduced within SA-CVA to more appropriately recognize diversification across asset classes.

Based on the QIS results, the introduction of SA-CVA diversification with a rho parameter value of 0.5 leads to an RWA reduction of 7 percent [142] or alternatively, $12 billion. [143]

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140 See Appendix 1 – Quantitative Impact Study Results, Index CVA_13.

141 See Appendix 1 – Quantitative Impact Study Results, Index CVA_14.

142 See Appendix 1 – Quantitative Impact Study Results, Index CVA_15.

143 See Appendix 1 – Quantitative Impact Study Results, Index CVA_16.

Appendix 1 – Quantitative Impact Study Results

Index	Description	Aggregate Value, Change, or Ratio	Footnote
FRTB_01	Total Market Risk Capital - Revised Under Full SA to Current (Current Model Approval) - % Change	89%	4
FRTB_02	Total Market Risk Capital - Revised to Current (Current Model Approvals, IMA/SA Blend) - % Change	30%	5
FRTB_03	DRC as a proportion of total FRTB Market Risk Capital (assuming current model approvals)	51%	7
SACCR_01	Fraction of EML Population in Netting Sets Subject to Qualifying Cross-Product Master Netting Agreements (in EAD terms)	66%	14
SACCR_02	Fraction of EML Population in Netting Sets Subject to Qualifying Cross-Product Master Netting Agreements (in RWA terms)	67%	15
FRTB_04	Equity Hedge Recognition RWA Impact - Maturity of 3 Months Assigned to Equity Derivatives (in $Bn RWA)	44	17
FRTB_05	Combined RWA Impact of Sovereign & Supranational Exclusions from SA DRC (in $Bn RWA)	36	18
FRTB_06	RWA impact by excluding local currency EM sovereigns from DRC (in $Bn RWA)	31	19
FRTB_07	DRC RWA Impact of Applying Speculative Grade (22%) Risk Weight to Funds Currently at Sub-Speculative (50%) (in $Bn RWA)	5	20
FRTB_08	RWA Impact of Alternative HBR Formula (Enhanced Hedge Recognition Between Long and Short Positions) (in $Bn RWA)	23	21
FRTB_09	Absolute Impact of SBM Inter Risk-Class Diversification with rho = 0.5 - Full SA, All Desks (in $Bn RWA)	92	22
SFT_01	Impact of recognizing the risk mitigating benefit of non-investment grade collateral (in $Bn RWA)	59	27
FRTB_10	Equity Hedge Recognition Impact as % of Total Non-Securitization DRC (3-Month Maturity for Equity Derivatives)	-22%	33
FRTB_11	Equity Hedge Recognition RWA Impact - Maturity of 3 Months Assigned to Equity Derivatives (in $Bn RWA)	44	34
FRTB_12	Marginal Impact of Excluding Local Currency EM Sovereign Exposures from DRC as % of Total Non-Sec DRC	-15%	40

Index	Description	Aggregate Value, Change, or Ratio	Footnote
FRTB_13	Marginal Impact of Excluding 0% Risk Weight Sovereigns & Supranationals from DRC as % of Total Non-Sec DRC	-2%	41
FRTB_14	Combined RWA Impact of Sovereign & Supranational Exclusions from SA DRC (in $Bn RWA)	36	42
FRTB_15	Impact of Alternative HBR Formula on Non-Securitization DRC RWA (%)	-19%	43
FRTB_16	Funds Impact to Non-Securitization DRC (%)	-3%	46
FRTB_17	Proportion of Funds Impact Attributable to Investment Funds over Total Funds & Indices	98%	47
FRTB_18	Proportion of Funds Impact Attributable to Non-Decomposed Indices over Total Funds & Indices	2%	48
FRTB_19	Total SA DRC Impact from Mitigation Items (in $Bn RWA)	108	52
FRTB_20	Overall RWA Impact of Improvements to NMRF - ES Methodology (Type A NMRFs) (in $Bn RWA)	6	53
FRTB_21	SBM RWA reduction (assuming current model approval status) by introducing an inter risk-class correlation parameter of 0.5	22	54
FRTB_22	Recommended Backtesting Multiplier Equivalent to One-Notch Liquidity Horizon Increase for Type A NMRFs	1.57	59
FRTB_23	Overall RWA Impact of Improvements to NMRF - ES Methodology (Type A NMRFs) (in $Bn RWA)	6	61
CVA_01	Total ERBA CVA RWA	168	65
CVA_02	ERBA CVA RWA with Mitigating Items as a Fraction of Proposed (Pre-Mitigation) ERBA CVA RWA	0.65	66
CVA_03	Percentage Reduction in ERBA CVA RWA from Mitigating Items (= CVA_02 minus 1)	-35%	67
CVA_04	Combined BA and SA CVA Mitigation Impact (in $Bn RWA)	59	68
CVA_05	CVA RWA Reduction from Increasing Granularity of Financial Institutions Risk Bucket (%)	-14%	69
CVA_06	Marginal Contribution of SPV Repacks to CVA Capital Requirements - SPVs Mapped to Financials Bucket (%)	-14%	70
CVA_07	SA-CVA Impact of rho = 50% in %	-7%	71
CVA_08	CVA RWA Reduction from Increasing Granularity of Financial Institutions Risk Bucket (%)	-14%	74

Index	Description	Aggregate Value, Change, or Ratio	Footnote
CVA_09	Marginal Contribution of SPV Repacks to On-Balance Sheet (Accounting) CVA (%)	-6%	76
CVA_10	Marginal Contribution of SPV Repacks to CVA Capital Requirements - SPVs Mapped to Financials Bucket (%)	-14%	77
CVA_11	Marginal Contribution of SPV Repacks to CVA Capital Requirements - Recommended Approach (Bond Issuer Risk Weight) (%)	-3%	78
CVA_12	Marginal Contribution of SPV Repacks to On-Balance Sheet (Accounting) CVA (%)	-6%	79
SFT_Derivs_01	Ratio of total ERBA SFT and Derivative RWA to current SFT and Derivative RWA	0.77	81
SFT_Derivs_02	Ratio of total Mitigated ERBA SFT and Derivative RWA to current SFT and Derivative RWA	0.70	82
SFT_02	Impact of recognizing the risk mitigating benefit of non-investment grade collateral (in $Bn RWA)	59	83
SFT_03	Exempt collateral posted in third-party pledged collateral structures (bankruptcy remote, no rehypothecation) from exposure (in $Bn RWA)	6	84
SACCR_03	Allow STM trades at netting set level to be treated as CTM for bilateral exposures, e.g. LCH swap agent (in $Bn RWA)	2	85
SFT_Derivs_03	Align short-term RW for banks with that of Basel: 1) all bank exposures <=3 months subject to lower risk weight in Table 2 (pg. 54 of 1087 USNPR); 2) All exposures <=6 months with a foreign bank that are trade related receive the lower risk weight from Table 2 (pg. 54 of 1087 USNPR) (in $Bn RWA)	17	87
SFT_Derivs_04	Expand scope of Bank RWs to include other regulated financials (BHCs, broker dealer subs of BHCs, insurance companies) (in $Bn RWA)	16	88
SFT_Derivs_05	Exempt collateral posted in third-party pledged collateral structures (bankruptcy remote, no rehypothecation) from exposure - % impact	-1%	90
SFT_04	Exempt collateral posted in third-party pledged collateral structures (bankruptcy remote, no rehypothecation) from exposure (in $Bn RWA)	6	91
SFT_Derivs_06	Allow STM trades at netting set level to be treated as CTM for bilateral exposures, e.g. LCH swap agent - % Impact	-0.2%	120

Index	Description	Aggregate Value, Change, or Ratio	Footnote
SACCR_04	Allow STM trades at netting set level to be treated as CTM for bilateral exposures, e.g. LCH swap agent (in $Bn RWA)	2	121
FRTB_24	Relative Impact of SBM diversification to FRTB SA (with mitigation items) with rho = 0.5	-13%	131
FRTB_25	Absolute Impact of SBM Inter Risk-Class Diversification with rho = 0.5 - Full SA, All Desks (in $Bn RWA)	92	132
FRTB_26	Sovereign & Supranational SBM Exclusion Impact as % of Total CSR Non-Securitization Capital	-4%	134
FRTB_27	Revised Market Risk RWA Impact of Excluding Sovereigns & Supranationals from SBM Calculation (in $Bn RWA)	3	135
FRTB_28	US Treasury SBM Exclusion Impact as % of Total CSR Non-Securitization Capital	-11%	136
CVA_13	Impact to SA-CVA of using BA-CVA indices risk weights % Impact	-3%	140
CVA_14	SA-CVA Impact of Applying BA-CVA Risk Weights to Index CDS Hedges (in $Bn RWA)	4	141
CVA_15	SA-CVA Impact of rho = 50% in %	-7%	142
CVA_16	SA-CVA RWA Reduction from Inter-Risk Class Diversification with rho = 0.5 (in $Bn RWA)	12	143

Appendix 2 – Glossary

Acronym	Meaning
ALM	Asset-Liability Management
BA-CVA	Basic CVA Approach
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CDS	Credit Default Swaps
CRC	Country Risk Classification
CSR	Credit Spread Risk
CTM	Collateralized-to-Market
CTP	Correlation Trading Position
CVA	Credit Valuation Adjustment
DM	Developed Markets
DRC	Default Risk Charge
EAD	Exposure at Default
EM	Emerging Markets
EML	Eligible Margin Loan
ERBA	Expanded Risk-Based Approach
ES	Expected Shortfall
FRTB	Fundamental Review of the Trading Book
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles
GSIB	Global Systemically Important Bank
HBR	Hedge Benefit Ratio
HCR	Hedge Coverage Ratio
HPL	Hypothetical Profit and Loss
HQLA	High Quality Liquid Assets
IG	Investment Grade
IHC	Intermediate Holding Company
IM	Initial Margin
IMA	Internal Models Approach
IMCC	Internally Modelled Capital Calculation
IRT	Internal Risk Transfer
JTD	Jump-to-Default
LGD	Loss-Given-Default
MDB	Multilateral Development Bank
MPOR	Margin Period of Risk
MR	Maturity Ratio
MtM	Mark-to-Market
NICA	Net Independent Collateral Amount
NMRF	Non-Modellable Risk Factors

Acronym	Meaning
NPR	Notice of Proposed Rulemaking
OECD	Organization for Economic Cooperation and Development
OTC	Over-the-Counter
PFE	Potential Future Exposure
PLA	Profit and Loss Attribution
QCCP	Qualifying Central Counterparty
QIS	Quantitative Impact Study
RRAO	Residual Risk Add-On
RST	Repo-Style Transaction
RWA	Risk-Weighted Asset
SA	Standardized Approach
SA-CCR	Standardized Approach for Counterparty Credit Risk
SA-CVA	Standardized CVA Approach
SBM	Sensitivities-Based Method
SES	Stressed Expected Shortfall
SFT	Securities Financing Transactions
SLR	Supplementary Leverage Ratio
SPV	Special Purpose Vehicle
STM	Settled-to-Market
TBA	To-Be-Announced
UMBS	Uniform Mortgage-Backed Securities
VaR	Value-at-Risk
VM	Variation Margin