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*Via Electronic Mail*

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Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue NW
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Docket No. OP-1828

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Docket ID OCC-2023-0016

Re: **Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996**

Ladies and Gentlemen:

Capital One Financial Corporation, The PNC Financial Services Group, Inc., Truist Financial Corporation, and U.S. Bancorp (collectively, the **Banks** or **we**) appreciate the opportunity to respond to the request for comment issued by the Board of Governors of the Federal Reserve System (the **Federal Reserve**), the Office of the Comptroller of the Currency (**OCC**) and the Federal Deposit Insurance

Corporation (**FDIC**, and collectively, the **Agencies**) pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (**EGRPRA**).[1]

Each of the four Banks is a large U.S. regional bank with total consolidated assets between approximately $540 billion and $690 billion as of June 30, 2025, making us Category III banking organizations that are approaching Category II. Collectively, we play a key role in the U.S. economy—our retail and commercial banking and brokerage business lines provide critical banking and other financial services, including mortgages and loans, to American businesses, consumers, and state and municipal governments across the country. This credit support and intermediation of main street activities is more important than ever, as small business loan demand has increased recently while the lending market for small businesses has tightened.[2]

The purpose of the EGRPRA request for comment includes identifying "outdated, unnecessary, or unduly burdensome requirements" for banking organizations as well as "statutes and regulations that share similar goals or complementary methods where [the Agencies] could eliminate the overlapping regulatory requirements."[3] This comment letter focuses on the Agencies' capital rules, one of the three categories covered by the request for comment, and it identifies several outdated and burdensome requirements. The letter also addresses the Agencies' ongoing rulemaking activities to implement the remaining elements of the international capital standards known as the Basel Framework[4] in the United States (the **Basel III Endgame**), including the July 2023 proposed rule to implement

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[1] FEDERAL RESERVE, OCC AND FDIC, *Regulatory Publication and Review under the EGRPRA*, 90 Fed. Reg. 35241 (Jul. 25, 2025).

[2] Daniel Harbour & Nicolas Courtney, *Small Business Loan Demand Increases Despite Year-Over-Year Decreases in New Small Business Lending and Tightening Credit Standards*, FEDERAL RESERVE BANK OF KANSAS CITY (Mar. 27, 2025), *available at* https://www.kansascityfed.org/surveys/small-business-lending-survey/small-business-loan-demand-increases-despite-year-over-year-decreases-in-new-small-business-lending-and-tightening-credit-standards/.

[3] 90 Fed. Reg. 35241 at 35242-43 (Jul. 25, 2025).

[4] The term **Basel Framework** refers to the international standards for the prudential supervision of banks developed by the Basel Committee on Banking Supervision of the Bank for International Settlements. BANK FOR INTERNATIONAL SETTLEMENTS, *The Basel Framework*, available at https://www.bis.org/basel_framework/ (accessed October 15, 2025). For the purposes of this letter, references to the Basel Framework refer to the Pillar 1 capital standards.

the Basel III Endgame (the **2023 Proposal**),[5] which we understand is expected to be reproposed.[6]

We urge the Agencies to consider a simpler and more transparent capital framework for large banks, including under the Basel III Endgame. Depending on how the Basel III Endgame is implemented, it could impose unnecessary burdens on large regional banks, lead to overlapping and inefficient regulatory requirements, and make large U.S. banks less competitive. In light of these considerations, we believe that the 2025 EGRPRA request for comment is an appropriate and timely forum for the Agencies to consider comments on the implementation of the Basel III Endgame, in addition to comments on the current scope, tailoring and substance of the existing U.S. capital framework.

## I. Introduction

We support the Agencies' efforts to make the U.S. capital rules more risk-sensitive and comparable to international standards to promote a level playing field. We encourage the Agencies to act expeditiously and transparently to implement the Basel III Endgame in a way that appropriately recognizes the differences between the U.S. and foreign financial sectors, puts U.S. banks on an equal competitive footing with non-U.S. banks and U.S. non-bank financial services competitors, is appropriately tailored based on the varying sizes and complexities of U.S. banking organizations, and does not result in an unjustified increase in capital requirements. Appropriate tailoring of capital requirements in our view would include indexing quantitative thresholds for the categorization of banking organizations to ensure that a bank is not forced into a new category merely because its growth reflects overall U.S. economic growth.

We are currently operating under a high degree of uncertainty about our future capital requirements. As a result, we are currently maintaining larger internal

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[5] FEDERAL RESERVE, OCC AND FDIC, Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, 88 Fed. Reg. 64028 (Sept. 18, 2023).

[6] In a hearing before the Senate Committee on Banking, Housing, and Urban Affairs on February 11, 2025, Chairman of the Federal Reserve Jerome Powell stated that: "We do intend to repropose Basel III Endgame, and we intend to do that just as soon as we can get together with the new leadership at the two other banking agencies." *The Semiannual Monetary Policy Report to the Congress*, UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS (Feb. 11, 2025), https://www.banking.senate.gov/hearings/02/04/2025/the-semiannual-monetary-policy-report-to-the-congress.

capital buffers (i.e., management buffers) to account for this uncertainty and to satisfy market expectations that we are prepared for the forthcoming Basel III Endgame requirements. The sooner there is clarity on a future path of U.S. capital requirements for large regional banks that appropriately balance safety and soundness with the role of the banking system in promoting economic growth, the sooner we can all plan accordingly and deploy this excess capital to increase lending and support the broader U.S. economy.

To achieve a more effective and simpler regulatory capital framework, the Agencies should carefully consider the aggregate capital requirements that would apply to Category II and III banking organizations as a result of implementing the Basel III Endgame. The Agencies should also be mindful of interactions and overlaps between the minimum capital requirements and the U.S.-specific stress capital buffer (**SCB**) requirement. The overall calibration of these interacting capital requirements is essential to striking the right balance between safety and soundness and the U.S. banking sector's support of the broader U.S. economy without displacing more banking activity into less regulated or unregulated sectors.[7]

We encourage the Agencies to consider the following principles as they repropose the Basel III Endgame and evaluate opportunities for regulatory simplification:

- Foster the ability of large regional banks to support U.S. economic growth through the intermediation of credit and capital markets activities.

- Avoid disincentives to banking organizations' participation in credit intermediation activities and support of a robust mortgage market, consumer financing market and commercial credit market to meet the needs of U.S. homeowners and consumers.

- Consider the aggregate impact of the U.S. capital framework based on the tailoring thresholds and reduce overlapping requirements.

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[7] Treasury Secretary Scott Bessent, Remarks before the Federal Reserve Community Bank Conference (Oct. 9, 2025) (stating, "Treasury is focused on ensuring that modernization of our capital framework ends the capital arbitrage that drives bank lending to non-banks. This will likely entail reduced capital requirements for large banks on mortgage loans, investment-grade corporate loans, and some other important exposures.").

- Index category thresholds and reduce cliff effects and their attendant regulatory burdens by allowing for reasonable compliance and transition periods for new regulatory requirements as banks move between the tailoring categories.[8]

While we recognize that reproposing and finalizing the Basel III Endgame rule will take time and deliberation, the Agencies should implement certain simplifying reforms without waiting to finalize the Basel III Endgame, including indexing the category thresholds for tailored capital requirements and other prudential standards (as discussed in Section IV.B) and immediately eliminating the burdensome preparation requirements for firms that become newly subject to the advanced approaches (as discussed in Section II.A).

The remainder of this letter addresses our specific recommendations for making the U.S. capital framework simpler, more efficient and more effective:

- Section II: Simplify U.S. capital requirements by eliminating dual approaches for large banking organizations.

- Section III: Recalibrate the Basel III Endgame to eliminate U.S. gold plating, improve risk sensitivity and reduce duplicative overlaps with the SCB.

- Section IV: Improve the tailoring of capital requirements.

- Section V: Extend compliance periods for firms that become newly subject to incremental capital requirements.

## II. Simplify U.S. Capital Requirements by Eliminating Dual Approaches for Large Banking Organizations

Under both current and proposed capital requirements, certain firms are required to calculate two sets of capital requirements. Currently, Category I and II banking organizations must perform two risk-based capital calculations using the standardized approach (for credit risk) and the advanced approaches (for credit

[8] In a conference hosted by the Federal Reserve discussing capital requirements for large financial institutions, John Stern, Chief Financial Officer of U.S. Bank, stated "There is that bank at 99 that is going into 100 the next day and suddenly everything changes. I think there can be an opportunity to think about smoothing . . . some of those regulatory activities before approaching that [asset] threshold…so it's not this cliff effect." *Integrated Review of the Capital Framework for Large Banks Conference*, FEDERAL RESERVE (July 22, 2025).

risk, operational risk and credit valuation adjustment (**CVA**) risk). Certain firms with significant exposures to market risk must calculate additional capital requirements using both standardized and advanced measures for market risk.

Under the 2023 Proposal, the advanced approaches would be eliminated and a new approach, the enhanced risk-based (**ERB**) approach (for credit risk, operational risk and CVA risk) would be introduced for Category I – IV firms. Large banking organizations would be required to calculate capital requirements under both the ERB approach and the standardized approach. In addition, the 2023 Proposal would replace the current approach for calculating capital requirements for market risk with a new approach, referred to as the fundamental review of the trading book (**FRTB**). Smaller banking organizations would remain subject only to the current standardized approach.

The current and proposed dual capital requirements are costly, inefficient and wasteful, especially where one set of calculations is likely to consistently result in the firm's binding capital requirements.

### *A. Eliminate the Advanced Approaches*

The Banks support the adoption of the ERB approach and the elimination of the advanced approaches. We request, however, that the Agencies take immediate action to suspend any expectation that new Category II firms, or Category III firms approaching Category II thresholds, prepare for or implement the advanced approaches.

The process of becoming an advanced approaches organization is expensive and burdensome. This process includes (1) the time and effort to develop the full range of internal models required by the advanced approaches and their related controls, and obtain regulatory approval for them, (2) the parallel run process of calculating capital requirements under both the standardized approach and the advanced approaches until a firm is approved as an advanced approaches organization, and (3) the continuing obligation to calculate capital requirements under both the standardized approach and the advanced approaches. Three of the Banks[9] were advanced approaches banking organizations prior to the adoption of the Agencies' tailoring rules for capital and liquidity standards in 2019, and the

[9] BB&T Corporation and SunTrust Banks, Inc., the predecessors to Truist Financial Corporation before they merged in 2019, were both non-advanced approaches banking organizations prior to their merger.

approach proved to be excessively burdensome, unnecessary, and therefore wasteful. The advanced approaches are also unnecessary within the current capital framework because the standardized approach is usually the binding constraint.

The Banks therefore recommend that the Agencies immediately suspend the burdensome operational requirements for new Category II firms or Category III firms approaching the Category II thresholds to prepare to implement the advanced approaches (i.e., develop models and undergo the parallel run). The expected elimination of the advanced approaches under the Basel III Endgame obviates the need for these requirements. Affected firms can instead focus their attention and resources on preparing for the forthcoming Basel III Endgame capital requirements and how these requirements impact their ability to support the growth of the U.S. economy.

### *B. Eliminate the Dual Capital Calculations*

The Agencies should implement the Basel III Endgame without the dual risk-based capital calculations (under the ERB approach and the standardized approach), which are redundant and inefficient. Instead, each banking organization should be required to calculate risk-weighted assets (**RWAs**) using a single approach that is appropriately calibrated to the risks relevant to the organization, given the size and scope of its activities. We believe that eliminating the dual capital calculation and allowing a single risk-based capital calculation would be consistent with the Congressional mandates of Section 171 of the Dodd-Frank Act (known as the **Collins Amendment**) and the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (**EGRRCPA**).

The ERB approach is fundamentally a more risk-sensitive and comprehensive framework than the current standardized approach. For example, in terms of risk sensitivity, the ERB approach considers more granular characteristics of exposures (e.g. loan-to-value ratios for certain types of credit exposures) and wider ranges of corresponding risk weights for many exposure categories. The calculation of ERB RWAs also includes RWAs for risk types – namely operational risk and CVA risk – that are not reflected in the existing standardized approach. While the Banks recommend that the Agencies consider refinements of the ERB approach to improve its calibration (as discussed in Section III below), an appropriately calibrated ERB approach would clearly improve the risk sensitivity of the standardized approach, at the attendant cost of added complexity.

The ERB approach's risk-sensitive and comprehensive nature make it a better fit for larger, more complex banking organizations. By design, the more comprehensive

nature of the ERB approach effectively renders the standardized approach unnecessary for firms subject to the ERB approach. The Banks therefore recommend that the Agencies implement the ERB approach of the Basel III endgame as follows:

- Wherever the line is drawn between categories of banks that are mandatorily subject to the ERB approach and those that are not, banks not mandatorily subject to the ERB approach should be allowed to opt in to the ERB approach;

- Any bank that uses the ERB approach should calculate its capital requirements solely under the ERB approach and not also under the standardized approach; and

- Banks not mandatorily subject to the ERB approach or that do not opt in to the ERB approach would be subject to the standardized approach and calculate their capital requirements solely under the standardized approach.[10]

## III. Recalibrate the ERB Approach to Eliminate U.S. Gold Plating, Improve Risk Sensitivity and Reduce Overlaps with the SCB

The Banks agree with the statements of Chairman Jerome Powell and Vice Chair for Supervision Michelle Bowman that the current overall level of capital requirements, including minimum capital requirements and SCB requirements, is about right.[11] The ERB approach in the 2023 Proposal, however, would have

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[10] Qualifying community banks that are subject to the community bank leverage ratio would continue to be subject solely to the community bank leverage ratio.

[11] On February 11, 2025, Chairman Powell stated that "My own view has been that our banks are well-capitalized and Basel III was not supposed to be an exercise in raising capital on U.S. banks…in terms of your [regional banks], they don't face the G-SIB surcharges. They don't face quite the burden that the large banks face on resolution planning and that sort of thing. So we need those banks to be healthy and profitable because we need them to compete with the G-SIBs. We don't want a world where the G-SIBs just keep getting a bigger and bigger share of the economy. That's not what we're looking for." *The Semiannual Monetary Policy Report to the Congress*, UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS (Feb. 11, 2025), https://www.banking.senate.gov/hearings/02/04/2025/the-semiannual-monetary-policy-report-to-the-congress. When U.S. Senator Mike Rounds asked Chairman Powell if a new Basel III endgame proposal would result in capital neutrality, Powell responded that a new proposal would land U.S. (….continued)

increased minimum capital requirements by approximately 9% for Category I-IV banks.[12]

The projected increase in minimum capital requirements under the ERB approach relative to the standardized approach can be attributed to three general causes: (1) higher capital requirements for certain exposures compared to the international Basel Framework (i.e., "gold plating") (2) the expanded scope of ERB RWAs to include operational risk and CVA risk; and (3) a more conservative calibration for certain exposures under the ERB approach compared to the standardized approach. Our recommendations in Sections III.A and III.B below focus on the first and third causes. Section III.B includes our recommendations on how the Agencies should consider the interaction between the minimum requirements and the SCB, given the expanded scope of ERB RWAs.

### *A. Eliminate Gold Plating from the Basel III Endgame*

We recommend that the Agencies avoid applying more conservative capital treatments to exposure types under the Basel III Endgame than the corresponding international standards, an approach which is sometimes referred to as "gold

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capital levels "in that range". *Id*. In a speech at the Salzburg Global Seminar on June 25, 2023, then-Governor Bowman stated that "Banks today are much better capitalized, with substantially more liquidity, and are subject to a new range of supervisory tools that did not exist prior to 2008. The strong foundation of the banking system results in banks that are well prepared to continue lending to their communities and supporting the broader economy even in stressful economic times. The underlying strength and resilience of the banking system also begs the question— what are the justifications for higher capital requirements?" Michelle W. Bowman, *Responsive and Responsible Bank Regulation and Supervision*, THE SALZBURG GLOBAL SEMINAR ON GLOBAL TURBULENCE AND FINANCIAL RESILIENCE: IMPLICATIONS FOR FINANCIAL SERVICES AND SOCIETY (June 25, 2023).

[12] The agencies stated that "[a]cross depository institutions subject to Category I, II, III or IV standards, the agencies estimate that the proposal would increase the binding common equity tier 1 capital requirement by an estimated 9 percent, consistent with the increase in risk-weighted assets for the depository institutions." The agencies further elaborated that the changes to AOCI recognition and threshold deduction changes would "result in a 4.6-percent and 3.8-percent relative increase in the common equity tier 1 and leverage capital requirements, respectively" for domestic holding companies subject to Category III standards. For domestic holding companies subject to category IV standards, the changes would result in a 2.6% change and 2.5% change in the respective capital requirements. FEDERAL RESERVE, OCC AND FDIC, Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, 88 Fed. Reg. 64028, 64168-71 (Sept. 18, 2023).

plating" of U.S. capital requirements.[13] These additional capital requirements increase the cost to U.S. banks to support the U.S. economy. For example, the ERB approach in the 2023 Proposal would have gold plated risk weights for several types of exposures, such as residential mortgages, retail, small and medium-sized entities (**SMEs**), and non-public investment grade corporate entities. Specifically, under the 2023 Proposal for the ERB approach:

- **Residential real estate exposures** would be subject to risk weights that are 20 percentage points higher than the corresponding risk weights under the international Basel Framework.

- **Retail exposures** would be subject to risk weights that are 10 percentage points higher than the corresponding risk weights under the international Basel Framework.

- **Exposures to SMEs** would be treated as retail exposures in the 2023 proposal, unlike under the Basel Framework where SMEs are a separate exposure category subject to an 85% risk weight.

- **Exposures to non-public corporate borrowers** would be subject to a 100% risk weight even if they are determined to be "investment grade," whereas the international Basel Framework permits such exposures to carry a 65% risk weight.

- **Equity exposures** for certain investments made pursuant to nationally legislated programs[14] generally would be subject to risk weights of 400%, whereas both the current treatment under the standardized approach and the international Basel Framework permit application of a 100% risk weight

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[13] These comments are consistent with the Banks' comments on the Basel III endgame. *See* Capital One Financial Corporation, The PNC Financial Services Group, Truist Financial Corporation and U.S. Bancorp, Letter re Proposed Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity (Jan. 16, 2024), *available at* https://www.fdic.gov/system/files/2024-06/2023-regulatory-capital-rule-large-banking-organizations-3064-af29-c-248.pdf.

[14] For example, certain non-publicly traded equity exposures related to renewable energy, historic property rehabilitation, tax equity finance transactions and minority depository institutions, as well as direct equity investments in small businesses that would qualify for investments from small business investment companies (SBICs) would be subject to risk weights of 400%.

to such exposures, subject to a limit of 10% of the banking organization's total capital.

We encourage the Agencies to eliminate all aspects of gold plating from the Basel III Endgame and, where not prohibited by statute, implement risk weights for exposure types that are no higher than the corresponding risk weights under the international Basel Framework. This would promote both the comparability of capital standards and the competitiveness of the U.S. banking industry.

### *B. Reduce the Overlap Between the Minimum Risk-Based Capital Requirements and the SCB*

Because of the impact of stress testing and the resulting SCB requirements on the overall capital requirements applicable to Category I-IV firms, even a near-identical implementation of the international standard (i.e., without gold plating) would generally result in higher relative capital requirements for U.S. banking organizations. To avoid an increase in the overall level of U.S. capital requirements for large banking organizations compared to the international Basel Framework, the Banks recommend additional adjustments to the ERB approach beyond the elimination of gold plating discussed in Section III.A above.

Because the current U.S. capital rules produce risk-based capital requirements that are based both on minimum capital requirements and the SCB, which does not exist in the international Basel Framework, the capital requirements applicable to U.S. banking organizations are inherently higher than those applicable to non-U.S. banking organizations subject to capital requirements based on the international Basel Framework. In addition, the SCB and the minimum risk-based capital requirements capture overlapping risks, including credit risk and counterparty credit risk, operational risk and market risk.[15]

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[15] For example, under the current framework, banking organizations calculating their minimum risk-based capital requirements under the standardized approach must calculate RWAs for credit and counterparty credit risk and (if applicable) market risk. Banking organizations subject to the SCB are subject to additional capital requirements for the same risks under stressed conditions, and certain firms must also reflect in those calculations the impact of the large counterparty default and global market shock components of the Dodd-Frank Act stress tests. Under the ERB approach, certain overlaps would expand. For example, the calculation of ERB RWAs includes RWAs for operational risk and CVA risk, risks that the SCB also reflects as part of its forecasts of pre-provision net revenues.

The Agencies should take these effects into account in reproposing the Basel III Endgame requirements. Merely implementing the international Basel Framework – especially after making adjustments for certain U.S. statutory requirements such as the elimination of references to external credit ratings – would still result in U.S. banking organizations being subject to increased capital requirements. The Banks therefore strongly recommend that the Agencies recalibrate the Basel III Endgame requirements to ensure that the aggregate risk-based capital requirements (i.e., minimum capital requirements and the SCB) do not consistently result in higher, punitive capital requirements. To this end, the Agencies should ensure that the aggregate risk-based capital requirements for each risk type are appropriately calibrated to ensure that (1) capital requirements are sensitive to the relevant risks, (2) the aggregate capital levels for large U.S. banking organizations are appropriate for their risks and (3) large U.S. banking organizations are on a level playing field with non-U.S. banking organizations.

The Banks made a number of recommendations in their January 2024 comment letter that would help reduce the punitive aspects of the aggregate risk-based capital requirements, and we encourage the Agencies to consider the recommendations in Section III of the Banks' January 2024 comment letter on the 2023 Proposal.[16] In addition, the Banks note the following illustrative examples of potential approaches to further recalibrate the ERB approach to reduce overlaps with the SCB:

- Under the securitization exposure framework, the Agencies should revise the standardized approach for securitization exposures (the **SEC-SA** formula) to recognize a category of simple, transparent and comparable (**STC**) securitizations subject to a lower p-factor and consider lowering the p-factor for non-STC securitizations.
    - The SEC-SA p-factor increase from 0.5 to 1.0 under the 2023 Proposal results in unnecessarily high risk weights, especially for simple securitization structures, and based on the U.S. experience

[16] *See* Capital One Financial Corporation, The PNC Financial Services Group, Truist Financial Corporation and U.S. Bancorp, Letter re Proposed Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity (Jan. 16, 2024), *available at* https://www.fdic.gov/system/files/2024-06/2023-regulatory-capital-rule-large-banking-organizations-3064-af29-c-248.pdf.

with securitizations since the global financial crisis, it is unclear what justification there is for a doubling of this factor.

- The international Basel Framework permits the recognition of lower p-factors for STC securitizations.

- Under the equity exposure framework, the Agencies should expand the 100% risk weight category for community development and small business investment company exposures to include all equity investments that qualify for federal tax credits or are otherwise made under nationally legislated programs (**tax equity exposures**).

  - The Basel Framework permits the application of a 100% risk weight to equity investments made pursuant to any nationally legislated program.

  - Excluding certain tax equity exposures from the 100% risk weight category would contravene Congressional policies to encourage these investments.

- Under the standardized approach for operational risk, the Agencies should either:

  - Fix the internal loss multiplier (**ILM**) at 1.0, effectively removing the ILM as a scaling factor that ties forward-looking capital requirements to historical losses. This approach would recognize that the business incentives to manage operational risk are sufficient and that an additional capital incentive based on a floating ILM is unnecessary; or

  - Remove the ILM floor, thus allowing the ILM to float above or below 1.0 depending on historical net operational losses, as under the Basel Framework. This approach would create symmetrical incentives for banking organizations to improve operational risk management practices regardless of the firm's historical net operational losses.

## IV. Improve the Tailoring of Capital Requirements

The Banks respectfully submit that the periodic reappraisal mandated by the EGRPRA requires the Agencies to go further than a reassessment of the Basel III Endgame. To further promote robust U.S. economic growth and to make the U.S.

banking sector more competitive, the Agencies must improve the tailoring rules with regard to the capital requirements and other prudential requirements.

### *A. The Simplified Deduction Approaches for Mortgage Servicing Assets and Deferred Tax Assets Should Be Retained for Category III and IV Banks and Extended to Category II Banks*

In July 2019, the Agencies finalized a rule (the **Simplification Rule**) that simplified certain threshold deduction approaches for non-advanced approaches banking organizations. That rule changed the deduction framework for mortgage servicing rights (**MSRs**), temporary difference deferred tax assets that the banking organization could not realize through net operating loss carrybacks (in general, **DTAs**; with respect to temporary timing difference DTAs, **TDDTAs**), and significant investments in unconsolidated financial institutions (**UFIs**).[17] Specifically, the rule replaced the 10% individual threshold and 15% aggregate threshold deductions for these items, which were unnecessarily complex and burdensome, with a simpler deduction framework. Under the simple deduction framework, non-advanced approaches banking organizations are only required to deduct MSRs, TDDTAs, and significant UFI investments from common equity tier 1 (**CET1**) capital to the extent they individually exceed a limit of 25% of a firm's adjusted CET1 capital. The Agencies noted that this simplification "appropriately balanced risk-sensitivity and complexity for non-advanced approaches banking organizations".[18]

The 2023 Proposal would eliminate the simplified threshold deduction framework for MSRs, TDDTAs and significant UFI investments for Category III and IV banks and require such banks to apply the more complex framework that currently applies only to Category I and II firms.[19] The Agencies' only justification for this reversal was that applying the framework to all firms created "alignment across all banking organizations subject to the proposal."[20] A return to the more complex threshold deduction framework would lead to an increased cost of capital

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[17] FEDERAL RESERVE, OCC AND FDIC, *Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996*, 84 Fed. Reg. 35234, 35237 (July 22, 2019).

[18] *Id*.

[19] FEDERAL RESERVE, OCC AND FDIC, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity*, 88 Fed. Reg. 64028, 64030 (Sept. 18, 2023).

[20] *Id*.

for the Banks to engage in mortgage lending and servicing, which would either be passed on to borrowers or cause banks to reduce the size of their mortgage lending and servicing businesses. Instead, the Agencies should retain the simplified threshold deduction framework for Category III and IV firms and consider extending it at least to Category II firms to align the requirements, reduce compliance burdens and support the housing market.

The more complex threshold deduction framework could also create downstream effects on nonbank mortgage originators and servicers, prospective homeowners and government-sponsored enterprises (**GSEs**), as it would encourage banking organizations to sell loans, MSRs and other mortgage-related assets they would otherwise choose to hold due to increased complexity and capital requirements. This would create inefficiency and volatility into the MSR market. These negative effects would be compounded by the requirement for MSRs to share an aggregate 15% limit with TDDTAs and significant UFI investments, which significantly increases the cost of capital for mortgage lending and servicing.[21]

The proposed treatment of MSRs, compounded by the proposed punitive treatment of residential real estate exposures, would have a negative impact on the ability of large U.S. regional banks to support growth in the economy. This treatment would also exacerbate the trend of pushing these products outside of the regulated banking sector and into non-bank financial institutions. There are clear policy interests in these core activities remaining within the well-supervised banking sector, rather than concentrating them in less regulated sectors outside the supervisory perimeter.

Reducing the excessively calibrated capital requirements for mortgage-related exposures would foster competitive parity between bank and non-bank lenders and help make housing finance more available and affordable, consistent

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[21] The Agencies justified limiting the amount of MSRs that may be included in regulatory capital due to "the relatively high level of uncertainty regarding the ability of banking organizations to both accurately value and realize value from these assets, especially under adverse financial conditions." 88 Fed. Reg. 64028, 64036. This analysis overlooks: (i) the increased sophistication of modeling approaches and valuation governance practices put in place under SR Letter 11-7 that required increased discipline in the risk management of MSRs; (ii) the countercyclical nature of MSRs within the context of the mortgage market as they increase in value in a high-interest rate environment, which provides banking organizations with a source of non-interest income during periods where mortgage origination volume and the value of other fixed income assets are both declining; and (iii) the role of MSRs in providing a source of low turnover assets because they include funds held at banks in escrow on behalf of the borrower.

with the policy recommendations of Treasury Secretary Scott Bessent.[22] Therefore, the Banks recommend retaining the simplified deduction framework for Categories III and IV firms and making it available at least for Category II firms as well.

In addition to reversing the EGRPRA's simplified deduction framework for MSRs and subjecting MSRs to a more punitive deduction framework, the 2023 Proposal's overly conservative treatment of TDDTAs would have negative and unnecessary procyclical impacts on banking organizations. This is because TDDTAs typically increase during stress periods when a banking organization realizes significant loan losses. During the same stress periods, banking organizations also face significant increases in their allowance of credit losses (and the associated TDDTAs), which impose additional demands on a banking organization's capital. As TDDTAs increase, they may exceed the 10% threshold of CET1 capital, and the excess would be required to be deducted from CET1 capital at a time when banks need more capital due to stress.

For Category III and IV firms currently subject to it, the simpler 25% threshold deduction introduced by the Simplification Rule gives banks room to hold TDDTAs without deduction from CET1 capital during a downturn, reducing pressure to reduce lending during such periods. In addition, the adoption of the current expected credit losses (**CECL**) accounting standard also resulted in an increase in allowances of credit losses, which in turn led to the recognition of TDDTAs. The elimination of the AOCI opt-out can also lead to the recognition of TDDTAs. The combined impact of these factors means that reverting back to the more complex threshold deduction framework would result in even greater reductions in CET1 capital for Category III and IV firms.[23]

TDDTAs are valuable assets that should be capable of being included in regulatory capital, subject to a reasonable threshold. While the Banks understand the concern that TDDTAs theoretically may not be realizable against future taxable

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[22] Secretary Bessent stated that "Outdated capital requirements on some exposures are misaligned with actual risk, imposing unnecessary burdens on financial institutions. Excessive capitalization, for example, reduces bank lending. This stymies growth and distorts market structure in ways that increase risk…[m]odernizing regulatory capital likely would mean reduced capital requirements for mortgage loans and some other exposures that are core to the community bank model." U.S. Treasury Secretary Scott Bessent, Remarks at the Federal Reserve Capital Conference (July 21, 2025).

[23] The same rationale for the simplified treatment of MSRs and TDDTAs should also apply at least to Category II firms.

income under adverse economic conditions, the U.S. capital rules are premised on banking organizations operating as going concern businesses, not as failed entities. Therefore, the concern that future taxable income would not exist against which TDDTAs could be used or realized should not be a driving consideration, particularly with respect to TDDTAs that arise only from timing differences. Moreover, TDDTAs on a bank's balance sheet are already subject to a "more-likely-than-not" to be realized valuation standard and experience has shown that such assets are valuable and capable of being realized.[24]

Instead of adding an additional layer of protection, the complex capital treatment of MSRs and TDDTAs can exacerbate economic stress by constraining capital for banking organizations when they need it the most as previously mentioned. In addition, banking organizations may appear less capitalized compared to their international competitors even if the risk is the same due to dissimilar treatment of MSRs and TDDTAs. This results in tighter capital constraints, higher compliance costs, and decreased competitiveness in global markets, ultimately materializing in increased costs and decreased availability of credit to U.S. consumers. Preserving the simplified deduction approaches for MSRs and TDDTAs for Category III and IV firms and expanding them at least to Category II firms would therefore promote robust credit intermediation, systemic stability and flexibility for large U.S. regional banks.

### *B. Categorization of Banking Organizations Based on Total Assets and Other Thresholds Should Be Indexed to Increases in Nominal GDP*

Since the finalization of the tailoring rules in October 2019, the asset and other thresholds for the four categories in the rules have remained unchanged. From the fourth quarter of 2019 until the second quarter of 2025, the nominal gross domestic product of the United States has grown from approximately $21.9 trillion

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[24] The complicated treatment of TDDTAs demanded by the current U.S. capital rules for Category I and II banks (and that would additionally apply to Category III and IV banks under the 2023 Proposal) is not even required under the international Basel Framework. Unlike the Basel Framework, U.S. implementation of the more complex threshold deduction framework requires banks to prove that their TDDTAs are likely to be used in order to include them in CET1 capital. U.S. capital rules divide DTAs into two categories: DTAs from net operating losses, and DTAs from temporary timing differences (i.e., TDDTAs). For the latter to be recognized in CET1 capital under the complex framework, banks need to prove that these TDDTAs are likely to be realized. Thus, banks are required to assess the realizability of DTAs, their future profitability, and their future tax liabilities to apply DTAs to regulatory capital.

to $30.5 trillion.[25] Because the tailoring thresholds have remained unchanged while the economy has grown, more banks have gradually crossed these thresholds not because they have become riskier, more complex or more systemically important, but simply because of nominal economic growth and inflation. As a result, these fixed thresholds have become less indicative of risk or complexity over time. If these thresholds continue to remain fixed, the justification for categorizing banks based on their systemic risk becomes less relevant and the categories will become more of a product of regulatory inertia.

The systemic risk that a banking organization poses to the broader economy is partly relative, as its risk is not merely based on its absolute size, but its size relative to the economy and the banking sector. To reflect the actual systemic risk a banking organization poses to the economy, the relevant tailoring thresholds should be indexed to increases in nominal GDP, to the extent permitted by statute.[26] Indexing the tailoring thresholds to increases in nominal GDP would ensure that the supervision and capital requirements a bank must face are proportionate to its risk to the overall economy.

To promote the stability of capital requirements and avoid pro-cyclical effects, the thresholds should not be permitted to decrease as a result of indexing. The tailoring thresholds should only reflect cumulative increases in nominal GDP and be frozen during periods of economic downturns and recovery.[27] Indexing only to increases in nominal GDP, such that the thresholds would not decrease due to a contraction in nominal GDP, would avoid the procyclical effect of pulling firms into more stringent capital requirements during economic downturns when nominal GDP contracts. This asymmetric approach promotes financial stability and regulatory certainty across the banking sector.

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[25] U.S. BUREAU OF ECONOMIC ANALYSIS, *Gross Domestic Product [GDP]*, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDP, (Oct. 7, 2025).

[26] The Banks acknowledge that the $250 billion threshold is reflected in the statutory text of Section 165 of the Dodd-Frank Act. But in light of the tailoring mandate of the EGRRCPA, the Banks believe that indexing these thresholds to measures of broader economic growth rather than growth caused by bank merger and acquisition activity is completely consistent with applicable law.

[27] For example, if nominal GDP increases by 5% in the first year, decreases by 3% in the second year and recovers by 2% in the third year, the tailoring thresholds would increase by 5% in the first year and be unchanged in the second and third years.

The Federal Reserve acknowledged the potential need for indexing when it originally adopted the tailoring rule in 2019. In its rule finalizing the categories based on asset thresholds, the Federal Reserve acknowledged that the thresholds "should be reevaluated over time to ensure they appropriately reflect growth on a macroeconomic and industry-wide basis, as well as to continue to support the objectives of this rule."[28] However, it has been six years since the tailoring thresholds have been fixed, and no changes have been made to them despite significant growth in the U.S. economy.

A permanent indexing solution should be incorporated directly into the applicable rules. This automatic indexing approach would reduce the burden on agencies to continually promulgate new regulations through the notice and comment period every time the thresholds no longer reflect the true systematic risk of banks as the economy grows.[29] It would also link the thresholds to objective, observable data and reduce the delay inherent in the need for Agencies to issue a notice of proposed rulemaking whenever they seek to amend the thresholds.

The Banks understand that alternative indexing approaches could be considered. The Banks believe, however, that indexing to increases in nominal GDP would ensure that the asset thresholds remain stable and that their supervisory and capital burdens are always tied to a firm's systematic risk. Furthermore, indexing to increases in nominal GDP would align the categorization of banks more consistently with the inherent growth in banks' capital requirements resulting from economic growth, as the balance sheets and exposures of banks tend to grow as the economy expands. Tools such as the counter cyclical capital buffer (**CCyB**) are already indexed to the growth of the economy as the CCyB is based on, among other factors, "…the ratio of credit to gross domestic product, a variety of asset prices, other factors indicative of relative credit and liquidity expansion or contraction…".[30] .

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[28] Board of Governors of the Federal Reserve System, Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, 84 Fed. Reg. 59032, 59046 (Nov. 1, 2019).

[29] The automatic indexing approach could be operationalized by a simple notice procedure, whereby the Federal Reserve calculates the re-indexed thresholds and publishes them to its website and through a Federal Register notice, without the need for a formal rulemaking subject to public notice and comment periods.

[30] 12 CFR 217.11(b)(2)(iv).

Indexing asset thresholds to increases in nominal GDP would therefore be consistent with an indexing approach that the Agencies already use.

The Agencies should prioritize and urgently implement the indexing of tailoring thresholds. The Banks represent the largest Category III firms, and some of us are approaching the outdated $700 billion total asset threshold for Category II. If the Agencies wait until Basel III Endgame is finalized to implement changes in the tailoring thresholds, one or more of the Banks could temporarily become a Category II firm, only to revert back to Category III status shortly thereafter. Such a pendulum effect would impose clearly unnecessary compliance burdens on the affected firm. The Agencies should not wait for the finalization of the Basel III Endgame to update and index the tailoring thresholds; this change – which would be consistent with the simplification mandate of the EGRPRA - should be implemented as soon as practicable.

### *C. Clarify that the Agencies' Organizational Frameworks for Supervisory Cohorts Does Not Entail Uniform Supervisory Expectations within Each Cohort*

In September 2025, the OCC announced a new organizational framework for its supervision of national banks and federal savings associations, which reorganized the OCC's Bank Supervision and Examination Group around three supervisory cohorts: large and global financial institutions, regional and midsized financial institutions, and community banks.[31] Comptroller of the Currency Jonathan Gould stated that he expects "these three bank supervision groups to generally align with our tailored regulatory framework."[32]

We generally support the Agencies' frameworks for organizing supervisory groups into cohorts tailored by the size, complexity and business models of the supervised institutions. We have concerns, however, that the use of supervisory cohorts could lead to supervisory expectations *within* these cohorts that is not appropriately tailored. In particular, the most heightened supervisory expectations applicable to the very largest and most complex banks should not be applied to

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[31] OCC, *Updates to Organizational Structure* (Sep. 18, 2025), *available at* https://www.occ.gov/news-issuances/news-releases/2025/nr-occ-2025-89.html.

[32] *Id.*

large U.S. regional banks. The tailoring of supervisory expectations should be consistent with a bank's size, complexity, and risk profile.

## V. Extend Compliance Periods for Firms That Become Newly Subject to Incremental Capital Requirements

Under the current capital rules, banking organizations may become newly subject to incremental capital requirements based on the tailoring rule category (or a certain activity level, such as trading activity). The tailored application of incremental capital requirements is consistent with the legislative mandate of Section 165 of the Dodd-Frank Act, as amended by the EGRRCPA, that certain prudential requirements, including capital requirements, be tailored to differentiate among banking organizations based on considerations such as their size, riskiness, complexity and activities.[33] We refer to this general feature of the capital rules as "**tiered capital requirements**" and to any capital requirement that newly applies to a firm due to a change in tailoring rule category or other measure, whether under the current capital rules or the future capital rules, as an "**incremental capital requirement**."

The Banks believe that the compliance periods for the applicability of incremental capital requirements for a firm that transitions to a more stringent category should be extended and, where applicable, subject to phase-in schedules that more gradually apply the tiered capital requirement framework to the firm. Under the tailoring rule, the compliance period for incremental capital requirements is two quarters.[34] The Banks believe that such a short compliance period can cause cliff effects in effective capital requirements and do not provide firms with a sufficient period to comply with the incremental capital requirements. Moreover, because the compliance period is so short, the effect is to cause bank examiners to require banking organizations to *anticipate* and take affirmative and restrictive balance sheet actions to prepare for a potential change in category before the banking organization actually crosses the relevant threshold. In effect, the short compliance period *accelerates* changes in category for banks via supervisory mandate compared to the rules as written. Extending the compliance period once a banking organization actually crosses the relevant threshold would be more consistent with the intent of the tailoring rules, which is to provide banking

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[33] 12 U.S.C. §5365(a)(2).

[34] 12 C.F.R. § 217.1(f)(5).

organizations with sufficient time to come into compliance once they have made the deliberate decision to change categories.[35]

For example, the transition from Category III to Category II would, under the current capital rules, cause a banking organization to begin the parallel run process for the use of internal models under the advanced approaches and become newly subject to (1) the mandatory recognition of accumulated other comprehensive income (**AOCI**) in CET1 capital, (2) annual (rather than biennial) company-run stress testing requirements, and (3) the more complicated threshold deduction framework applicable to advanced approaches firms (rather than the simplified deduction framework).

Certain of these incremental capital requirements – in particular the AOCI recognition and threshold deduction requirements – can have significant effects on a banking organization's binding capital ratios. For example, in the preamble to the 2023 Proposal, the Agencies recognized that "[i]n recent years, the aggregate AOCI related to security holdings of holding companies subject to Category III or IV capital standards fluctuated between an unrealized gain of $25 billion and an unrealized loss of $108 billion." The current two-quarter compliance period does not afford sufficient time for a banking organization to plan for the transition to these significant new requirements.

Accordingly, the Banks recommend extending the transition period for incremental capital requirements to eight quarters (from two quarters). For requirements that have a quantitative impact on capital ratios, this eight-quarter transition period should reflect a simplified and uniform phase-in schedule – e.g., 50% of the impact of the incremental requirement(s) could be recognized in the second transition year. At a high level, this phased-in approach would be consistent with the *initial* transition provisions applicable to AOCI recognition and the initial applicability of the ERB approach under the 2023 Proposal. For example, under the 2023 Proposal, the effects of AOCI recognition and the ERB approach would be

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[35] *C.f.* Federal Reserve, OCC and FDIC, *Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements*, 84 Fed. Reg. 59230, 59248 (Nov. 1, 2019) (stating that "To move into a category of standards or to determine the category of standards that would apply for the first time, a banking organization would rely on an average of the previous four quarters . . . . Use of a four-quarter average would capture significant changes in a banking organization's risk profile, rather than temporary fluctuations, while maintaining incentives for a banking organization to reduce its risk profile relative to a longer period of measurement.")

phased in over a three-year transition period.[36] The initial transition periods for AOCI recognition and the ERB approach under the 2023 Proposal, however, do not apply to firms that transition to a more stringent category *after* the initial transition period has expired.[37] Our recommendation would apply a similar, but simplified, phased-in approach to such firms.

The Banks' recommended approach would ensure that banking organizations that transition from one category to a more stringent category, whether under the current capital rules or the future capital rules, would be afforded a similar compliance period for incremental capital requirements as firms that were in the relevant category upon the effective date of any new capital requirements. In some cases, such as AOCI recognition, this approach could result in shorter transition periods for firms that become newly subject to certain requirements relative to the initial transition provisions applicable upon the initial adoption of those requirements. Nevertheless, we believe that this simple and pragmatic approach appropriately recognizes that the stated rationales for the initial transition provisions – allowing sufficient time to adopt new requirements and minimize the potential for cliff effects affecting the ability of firms to lend – apply with similar force to banking organizations that transition between categories as it does to the initial adoption of new requirements.

* * *

The Banks appreciate the opportunity to comment on potential changes to applicable regulatory requirements under the authority of the EGRPRA. If the Agencies have any questions about this comment letter, please contact the individuals listed in Appendix A.

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[36] 88 Fed. Reg. 64028 at 64166 (stating that "The main goal of the transition provisions is to provide applicable banking organizations with sufficient time to adjust to the proposal while minimizing the potential impact that implementation could have on their ability to lend.").

[37] 88 Fed. Reg. 64028 at 64166, n. 458 (stating that "Beginning July 1, 2028 [the end of the proposed three-year transition period], no transitions under this proposal would be provided to banking organizations that become subject to Category I, II, III or IV standards.").

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**Appendix A**

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