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James P. Sheesley  
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Attention: Comments/Legal OES (RIN 3064-AF29)  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street N.W.  
Washington, D.C. 20429

Chief Counsel's Office  
Attention: Comment Processing  
Office of the Comptroller of the Currency  
400 7<sup>th</sup> Street S.W.  
Suite 3E-218  
Washington, D.C. 20219

**Re: Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity**

Federal Reserve: Docket No. R-1813, RIN 7100-AG64  
FDIC: RIN 3064-AF29  
OCC: Docket ID OCC-2023-0008

Dear Sir/Madam,

We appreciate the opportunity to provide further considerations that go beyond our letters submitted to the Agencies on January 16<sup>th</sup>, 2024 (“**January Letter**”)<sup>1</sup> and on April 8<sup>th</sup>, 2024 (“**April Letter**”)<sup>2</sup> in relation to the above-referenced proposal (the “**Proposed Rulemaking**”)<sup>3</sup>. Specifically, below we provide an additional proposal for the look through approach for equity investments in funds.

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<sup>1</sup> Letter from ISDA and SIFMA to the Agencies (January 16, 2014), *available at* <https://www.isda.org/a/1ElgE/ISDA-and-SIFMA-Response-to-US-Basel-III-NPR.pdf>

<sup>2</sup> Addendum Letter from ISDA and SIFMA to the Agencies (April 8, 2014), *available at* <https://www.isda.org/a/q8wge/ISDA-SIFMA-Basel-III-Endgame-Comment-Letter-Addendum.pdf>

<sup>3</sup> Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64,028 (Sept. 18, 2023)



## Equity Investments in Funds (Partial Look Through Approach)

The Associations are concerned that the capital treatment of equity investments in funds (EIIFs) remains very problematic under the standardized approach to the Fundamental Review of the Trading Book (FRTB-SA). The main challenge for banking organizations is the limitation in the availability of data. The look through approach (LTA) requires fund managers to publish all their underlying fund holdings on a frequent basis and banks to translate this into the relevant risk measures under FRTB-SA. Firstly, for a substantial portion of funds, in particular mutual funds, fund holding reporting on such a frequent basis is not available. Secondly, banking organizations will face significant challenges in implementing the necessary infrastructure and computational enhancements due to their scale and complexity. This is due to the size of fund holdings for which risk data needs to be generated when those holdings are not on the balance sheet and therefore not subject to the standard data checks. Therefore, for most funds, the Industry would point to the fund bucket solution presented in the April Letter, which would make the capital treatment more appropriate, and risk aligned. The purpose of this proposal is to give banking organizations additional latitude for the subset of funds where some portion of the underlying holdings can be looked through.

Even for funds where decomposition is possible<sup>4</sup>, there may be data or infrastructure challenges that limit banking organizations from being able to perform decomposition on 100% of the underlying holdings (i.e., a banking organization may be able to perform LTA on a material portion of a fund but unable to perform LTA on a non-material portion). For the material portion of the fund, we propose to use the LTA, while for the non-material portion of the fund, we propose to use the conservative risk weight already in the Proposed Rulemaking. This can be achieved by qualifying the definition of LTA in § \_\_.202(b).

### **Proposal:**

The Associations propose to qualify the definition of LTA in § \_\_.202(b) with the highlighted text below:

*“Look-through approach means an approach in which a [BANKING ORGANIZATION] treats a material portion of a market risk covered position that has multiple underlying exposures (such as an index instrument, multi-underlying option, an equity position in an investment fund, or a correlation trading position) as if the underlying exposures were held directly by the [BANKING ORGANIZATION].”*

A “material portion” is inserted in order to allow banking organizations to opt for LTA in cases where the majority of the underlying holdings in the fund are known and can be priced by the banking organization. Only a non-material portion of the underlying holdings would be treated according to the “fallback method”<sup>5</sup>, which stipulates a conservative 70% risk weight in the calculation of SBM capital. The proposed methodology is prudent because every underlying

<sup>4</sup> ETFs, such as HYG and LQD, would fall under this cohort.

<sup>5</sup> § \_\_.205(e)(3)(iii)



holding is assigned either an appropriate risk weight based on its reference information or the most conservative fallback risk weight. However, this approach naturally leads to a better diversification between a fund and a portfolio of single name equity or bond positions (or between funds with similar underlying holdings).

## Conclusion

The Associations appreciate the opportunity to submit additional comments on the Industry response letter. If you have any questions, please contact Lisa Galletta at [lgalletta@isda.org](mailto:lgalletta@isda.org) or [REDACTED] and Guowei Zhang at [gzhang@sifma.org](mailto:gzhang@sifma.org) or [REDACTED]

Very truly yours,

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