August 26, 2025

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Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

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Attention: Comments/Legal OES (RIN 3064-AG11)

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

Re: Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies

Federal Reserve: Docket No. R-1867, RIN 7100-AG96
FDIC: RIN 3064-AG11
OCC: Docket ID OCC –2025-006, RIN 1557-AF31

Dear Sir/Madam,

The International Swaps and Derivatives Association, Inc. ("**ISDA**"), the Securities Industry and Financial Markets Association ("**SIFMA**") and the Futures Industry Association ("**FIA**" and, collectively with ISDA and SIFMA, the "**Associations**") welcome the opportunity to comment on the proposal referenced above (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] The Proposal would modify the enhanced supplementary leverage ratio requirements (the "**eSLR**") applicable to (i) U.S. top-tier bank holding companies that are identified as U.S. global systemically important bank holding companies ("**GSIB**") and (ii) their subsidiary depository

[1] Federal Reserve, FDIC, OCC, *Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies*, 90 Fed. Reg. 30,780 (Jul. 10, 2025).

institutions. The Proposal also would modify the Federal Reserve's total loss-absorbing capacity ("**TLAC**") leverage buffer and leverage-based long-term debt ("**LTD**") requirements that are applicable to U.S. GSIBs.

Executive Summary

- The Associations strongly support the proposed recalibration of the eSLR and the conforming changes to the TLAC and LTD requirements. The Associations urge the Agencies to finalize the proposal as soon as possible, with an effective date no later than January 1, 2026.

- We fully support these policy goals – that is, (1) helping to restore the eSLR to its proper role as a backstop to risk-based capital requirements and (2) mitigating limitations on the ability of banking organizations to intermediate in U.S. Treasury markets, which is particularly pressing given the impending industry move to mandatory clearing for U.S. Treasuries.

- Moving promptly is critical for achieving these goals, which is why we strongly support finalization and an effective date no later than January 1, 2026. Moreover, the Associations would support further refinements to leverage capital requirements to achieve those policy goals to an even greater extent. Any further refinements, however, should not delay a final rule being effective by January 1, 2026.

- More broadly, consistent with Vice Chair for Supervision Bowman's recent comments, the Agencies should conduct a comprehensive review of the U.S. regulatory capital framework and, based on that review, implement appropriate reforms.[2] These reforms should recognize that the current framework has pushed activity outside of the banking sector and reflect changes to avoid that dynamic. Treasury Secretary Bessent has noted that "risks may be moving to pockets of the financial system that are not well positioned to bear them" and that the Financial Stability Oversight Council ("**FSOC**") "has an important role in facilitating the development of a strong, coordinated approach that both stimulates growth and mitigates material risks."[3] The Agencies should coordinate with the Treasury Department and other FSOC member agencies, as appropriate, to design a regulatory capital framework that addresses the broader economic policy concerns and goals raised by Secretary Bessent. For example, the Agencies should make changes to recognize the risk-reducing benefits of cross-product netting and cross-margining

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2 See Federal Reserve Vice Chair for Supervision Michelle W. Bowman, *Unintended Policy Shifts and Unexpected Consequences*, p. 13 (June 23, 2025), *available at* https://www.federalreserve.gov/newsevents/speech/files/bowman20250623a.pdf ("[The eSLR] proposal takes a first step toward what I view as long overdue follow-up to review and reform what have become distorted capital requirements. This proposal, while meaningful, addresses only one element of the capital framework. More work on capital requirements remains, especially to consider how they have evolved and whether changes in market conditions have revealed issues that should be addressed.").

3 Financial Stability Oversight Council, *Minutes of the Financial Stability Oversight Council*, p. 4 (Mar. 20, 2025), *available at* https://home.treasury.gov/system/files/261/FSOC_20250320_Minutes.pdf.

arrangements. The Associations have included a limited number of select enhancements for additional reforms in the Appendix to this letter focusing in particular on addressing the concerns raised above.

This Proposal is directly relevant to the broader policy objective of ensuring the regulatory framework stimulates growth and mitigates material risks. In particular, the U.S. regulatory capital framework, and specifically the leverage-based capital requirements, have a direct impact on the functioning of the U.S. capital markets, including the U.S. Treasury market. The U.S. capital markets are essential to the continued economic and financial success of American households and businesses. Relatedly, the U.S. Treasury market—which is widely viewed as the deepest and most important market globally—plays a critical role in facilitating the Federal Reserve's monetary policy, financing the U.S. government, serving as a benchmark with respect to the valuation of a variety of financial instruments and providing a safe and liquid investment.[4]

Banking organizations are integral to the liquidity and overall functioning of the U.S. Treasury market and related financing markets, in particular through acting as trading counterparties to the Federal Reserve Bank of New York, participating in auctions of new U.S. Treasury issuances as primary dealers and intermediating U.S. Treasury market transactions in the cash and repurchase and reverse repurchase ("**repo**") markets.[5] These bank intermediation activities will need to be expanded and strengthened to address the increased volume of U.S. Treasury transactions, including the expanded scope that will be subject to mandatory clearing as a result of the Treasury clearing mandate issued by the U.S. Securities and Exchange Commission (the "**SEC**").[6] However, under the current U.S. regulatory capital and leverage ratio frameworks, banking organizations face substantial constraints in performing these intermediation functions given the inappropriate calibration of prudential requirements.

The Proposal highlights the importance of banking organizations as investors in U.S. Treasury securities and focuses on the amount of U.S. Treasury securities that banking organizations hold to support U.S. Treasury intermediation. The Associations also would equally highlight the importance of financing activity, as reflected in the following chart.

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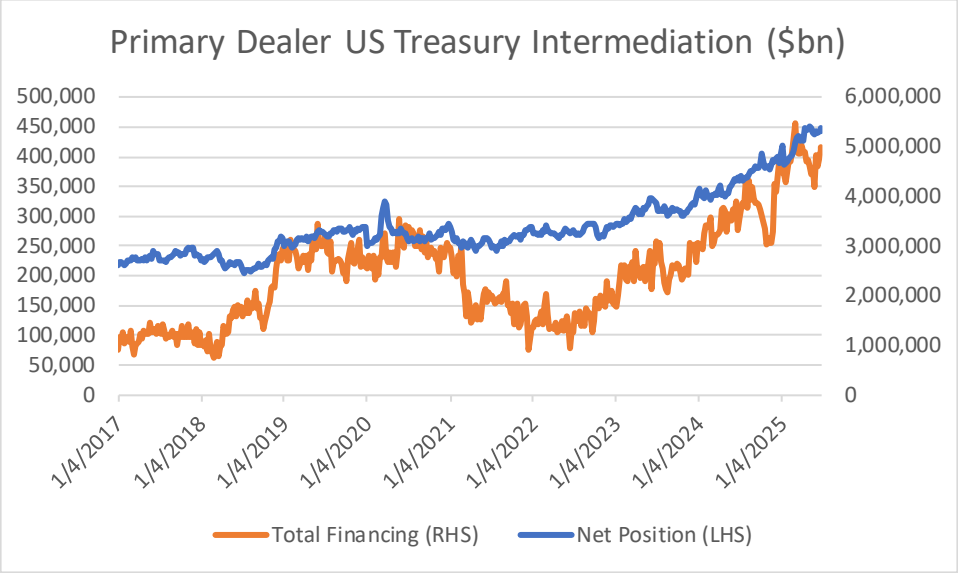
4 90 Fed. Reg. at 30,791, fn. 54.

5 See, e.g., Jerome H. Powell, *Statement on Enhanced Supplementary Leverage Ratio Proposal* (June 25, 2025), *available at* https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20250625.htm ("Because banks play an essential intermediation role in the Treasury market, we want to ensure that the leverage ratio does not become regularly binding and discourage banks from participating in low-risk activities, such as Treasury market intermediation."); Letter from Scott O'Malia, Chief Executive Officer of ISDA to the Federal Reserve, the FDIC and the OCC, *SLR Reform – U.S. Treasuries* (Mar. 5, 2024), *available at* https://www.isda.org/a/h3sgE/ISDA-Submits-Letter-to-US-Agencies-on-SLR-Reform.pdf (the "**ISDA SLR Letter**").

6 SEC, *Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities*, 89 Fed. Reg. 2,714 (Jan. 16, 2024).



Source: Federal Reserve Primary Dealer Statistics

The demand for primary dealers to allocate resources for financing activities is constantly increasing and can surge to maintain the market's proper functioning. For instance, as reflected in the chart, demand for financing activity increased in response to drawdown of U.S. Treasuries by the Federal Reserve during 2018 and in 2022.

With respect to leverage ratios, as reflected in the Proposal, leverage-based capital requirements broadly are intended to operate as a backstop to risk-based capital requirements, not as a binding constraint.[7] However, the eSLR in particular often represents a binding constraint, especially for depository institution subsidiaries of U.S. GSIBs.[8] We agree with the Agencies that a binding leverage ratio requirement leads to distortions in how banking organizations allocate capital and can lead to reduced participation in low-risk and low-return activities, such as U.S. Treasury market intermediation.[9] There have been periods during which the current SLR and eSLR calibration, as well as the Tier 1 leverage ratio, operated as binding

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7 90 Fed. Reg. at 30,782, 30,785.

8 90 Fed. Reg. at 30,791 (describing the Agencies' estimate that "in the period from Q2 2021 to Q4 2024, the supplementary leverage ratio requirement was the binding tier 1 capital requirement 60 percent of the time, on average, for seven out of the eight GSIBs" and that, for the same period, "the supplementary leverage ratio requirement was the binding tier 1 capital requirement 87 percent of the time, on average, for 'major' depository institution subsidiaries of GSIBs"); 90 Fed. Reg. at 30,797 (noting that "the proposal would reduce the level of the supplementary leverage ratio requirement from about . . . 155 percent of the risk-based tier 1 capital requirement to about . . . 100 percent of it, on average, for [GSIBs'] major depository institution subsidiaries" and that "the proposal would set the level of the supplementary leverage ratio requirement below the risk-based tier 1 capital requirement for 6 out of the 9 major depository institution subsidiaries of GSIBs").

9 90 Fed. Reg. at 30,783 ("As a notable example of concerns regarding the incentive effects of a binding supplementary leverage ratio requirement, a regularly binding leverage capital requirement could disincentivize large banking organizations from intermediating in the U.S. Treasury market.").

constraints that limited banking organizations' intermediation capacity including during periods of stress, preventing banking organizations from expanding their balance sheets and supporting robust, liquid markets including the U.S. Treasury markets.

The Associations agree with Federal Reserve Vice Chair for Supervision Bowman that the Proposal represents a welcome "first step" in reforming the U.S. regulatory capital framework.[10] As part of the broader work to improve that framework, beyond finalizing the Proposal, the Agencies should also consider further changes to reduce regulatory impediments to the overall functioning of the U.S. Treasury market throughout the business cycle and different market conditions, as reflected in Question 9 and Question 10 of the Proposal.[11] The design of the U.S. regulatory capital framework—inclusive of risk-based capital and leverage capital—should be appropriately calibrated to reflect underlying risks and should be designed to reflect broader economic policy goals. In general, banking organizations manage their capital based on the overall level of capital and leverage requirements, reflecting both mandatory minimum requirements and buffers. Regulatory capital and leverage constraints can impede the important intermediary and related functions that banking organizations provide, which may ultimately reduce market liquidity and vibrancy and increase the cost of funding for businesses, individuals and governments.

I. The Associations strongly support the proposed recalibration of the eSLR and urge the Agencies to implement these revisions by January 1, 2026.

The Associations strongly support the proposal to modify the current 2% eSLR leverage buffer applicable to U.S. GSIBs to 50% of the U.S. GSIB's risk-based GSIB capital surcharge calculated under Method 1 of the Federal Reserve's GSIB surcharge rule. The Associations also strongly support the proposal to replace the current 6% "well-capitalized" threshold for a depository institution subsidiary of a U.S. GSIB with an eSLR leverage buffer standard equal to 50% of the risk-based GSIB capital surcharge applicable to the depository institution's U.S. GSIB holding company as calculated under Method 1. These revisions would reduce the likelihood that the eSLR would serve as a binding constraint, as opposed to a backstop to risk-based capital requirements, consistent with the general purpose of leverage-based capital requirements. The revisions also should help facilitate banking organization participation in U.S. Treasury markets and other low-risk, high-volume activities.

It is critical for the Agencies to implement the proposed reforms to the eSLR calibration by January 1, 2026 to mitigate the concerns described in the Proposal—addressed in the Executive Summary—regarding the constraints on banking organization intermediation in the U.S. Treasury and other markets as a result of the eSLR. There is particular urgency to finalize the recalibration of the eSLR considering the anticipated shift to clearing a wide range of U.S. Treasury cash and repo transactions, for which banking organizations will be expected to provide clearing services to its customers. In addition to facilitating bank participation in U.S.

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[10] Michelle W. Bowman, *Statement on Enhanced Supplementary Leverage Ratio Proposal*, p. 2 (June 25, 2025), *available at* https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20250625.htm.

[11] 90 Fed. Reg. at 30,788.

Treasury and related markets, the Proposal also would likely afford some flexibility to absorb market shocks—as were experienced during the COVID crisis—and increase resilience during stressed periods.

Relatedly, the eSLR leverage buffer applicable to a U.S. GSIB or depository institution subsidiary of a U.S. GSIB should not exceed 2%. Subjecting the eSLR leverage buffer to a maximum of 2% would mitigate the potential constraints in U.S. Treasury market and other intermediation activities addressed in the Proposal that could result from increases in the Method 1 calculation over time. A maximum 2% eSLR buffer also would help ensure that the leveraged-based requirement generally operates as a backstop, not a binding constraint.

The Proposal also requests comment on other modifications to the SLR calculation. The Associations fully support the policy objectives of addressing "the undesired incentive effects of binding leverage ratio requirements" and providing large banking organizations with "significant additional flexibility and capacity to maintain or increase low-risk, low-return activities, including but not limited to U.S. treasury market intermediation."[12] Therefore, we support any further refinements to leverage capital requirements including, but not limited to, targeted broker dealer exclusions to complement the proposed recalibration and to achieve these policy goals. Moreover, the Associations acknowledge that the narrow exclusion approach would provide an automatic "safety valve" for Treasury market intermediation for cases in which balance sheets rapidly expand as they did in 2020. In a final rule implementing the recalibration of the eSLR, the Agencies should explicitly reconfirm their ability to exclude U.S. Treasuries and deposits at Federal Reserve Banks in exceptional macroeconomic circumstances, as demonstrated during the COVID crisis, in order to clarify the potential use of these tools during stressed periods.[13]

II. Other Recommended Enhancements to the Regulatory Capital Framework

As reflected above, the proposed recalibration of the eSLR should be implemented as quickly as possible. In addition, and in response to Question 9 and Question 10 of the Proposal,[14] separate from the finalization of the proposed recalibration of the eSLR, the

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12 90 Fed. Reg. at 30786.

13 FDIC, Federal Reserve, OCC, *Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio for Depository Institutions*, 85 Fed. Reg. 32,980, 32,982 (June 1, 2020); Federal Reserve, *Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio*, 85 Fed. Reg. 20,578 (Apr. 14, 2020).

14 90 Fed. Reg. at 30,788 ("*Question 9:* In addition to the changes to the supplementary leverage ratio requirements being considered in this proposal, what other changes to the bank regulatory framework, if any, should the agencies consider to reduce regulatory impediments to well-functioning U.S. Treasury markets while appropriately taking into consideration the objectives of the framework? For example, what additional changes should the agencies consider in the context of the mandatory central clearing of certain U.S. Treasury transactions? How might repo-style transactions, including transactions with the Federal Reserve, be more appropriately reflected in the supplementary leverage capital requirements or other areas of the regulatory framework? What are the potential costs and benefits of such changes? *Question 10:* What additional or alternative changes to the capital rule should the agencies consider to ensure that the capital

Agencies should consider further enhancements to the U.S. regulatory capital framework, particularly in the context of facilitating continued participation by banking organizations in U.S. Treasury market intermediation and related activities. The Associations have addressed several recommended enhancements in this Section II and included select further potential reforms in the Appendix.

A. The regulatory capital framework should appropriately recognize the risk-reducing benefits of cross-product netting agreements.

With respect to the request in Question 10 regarding additional changes to ensure that the capital framework functions appropriately throughout the business cycle and periods of stress, it is critical that the U.S. regulatory capital rules recognize the risk-mitigation benefits of cross-product netting agreements under the standardized approach. In general, cross-product netting refers to the ability to net exposures across different products, in particular derivatives, repo-style transactions and margin loans. Appropriate recognition of cross-product netting is critical given the expected increase in clearing activity and efforts to efficiently utilize funding resources to support liquidity and market functioning, in particular during times of stress.

Banking organizations have cross-product netting arrangements with counterparties that permit the banking organization and its customer to calculate and settle transactions on a net basis as a contractual matter across multiple types of financial transactions (such as derivatives, margin loans and repo transactions), including in the event of the customer entering into insolvency proceedings. For these arrangements, a banking organization would conduct legal analysis upfront to determine its rights to terminate and close out the customer's positions and calculate a net amount that is owed to or from the customer in respect of the combined portfolio.

Although the risk-reducing benefits of netting under a single enforceable netting agreement within a product class are currently recognized under both the standardized approach and the advanced approaches in the U.S. regulatory capital framework, a qualifying cross-product master netting agreement ("**QXPMNA**") is recognized only for purposes of the advanced approaches (in particular, the internal models methodology) subject to approval. The advanced approaches apply only in respect of the largest banking organizations (Category I and Category II banking organizations), and even for those banking organizations, the advanced approaches are often not the binding risk-based capital constraint. Moreover, under the Basel III Endgame proposal,[15] advanced approaches would no longer be permissible for counterparty credit risk.

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rule is able to function appropriately throughout the business cycle and particularly during periods of stress? What, if any, additional 'safety valves' should the agencies consider incorporating into the capital rule to better respond to periods of stress and to reduce the risk that emergency action may be necessary (for example, a more specific reservation of authority, in addition to 12 CFR 3.1(d)(4), 217.1(d)(4), 324.1(d)(4))?").

15 FDIC, Federal Reserve, OCC, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity*, 88 Fed. Reg. 64,028, 64,170-71 (Sept. 18, 2023).

The overcalibration of standardized risk-weighted assets ("**RWAs**") because of the lack of recognition of the benefits of cross-product netting is important in a broad sense and is particularly significant in the context of U.S. Treasury market intermediation. The initiatives by qualifying central counterparties ("**QCCPs**") to implement cross-margining arrangements will permit market participants to post margin based on the combined risk of a portfolio that spans multiple product classes and QCCPs, which may reduce margin requirements consistent with risk offsets in respect of the combined portfolio. Outside approved QCCP cross-margining programs, banking organizations may apply product-specific margining requirements to customers across products such that, as an economic and risk management matter, the banking organization's collateral coverage satisfies its exposure to the customer.

Without recognition of QXPMNAs for portfolios with offsetting risks, standardized counterparty credit risk capital requirements will be over-calibrated for portfolios with reduced risk, resulting in capital management inefficiencies and possible impairment of market liquidity and functioning. In the context of cross-margining product offerings, clients benefit from lower margin requirements that improve financial resource efficiency and reduce liquidity stress during market disruption without imposing undue capital burdens on banks intermediating those portfolios. Although the lack of recognition of cross-product netting is particularly punitive in the context of cross-margining scenarios given the lower collateral amounts applied, cross-product netting should be recognized, whether or not there is a cross-margining agreement, whenever banking organizations have the legally enforceable right to close out multiple products on a net basis so that standardized counterparty credit risk RWAs are appropriately calibrated and risk-sensitive.

The Associations recommend that the Agencies extend the existing standardized approach for counterparty credit risk ("**SA-CCR**") to incorporate securities financing transactions ("**SFTs**" or "**financings**", including repo-style transactions and margin loans) when covered under a QXPMNA (referred to as "**extended SA-CCR**"), which would more appropriately reflect the reduced counterparty credit risk inherent in enforceable cross-product netting arrangements. SA-CCR is a more risk sensitive and modern methodology that incorporates potential future exposure ("**PFE**") add-on offsets within risk class hedging sets and the PFE multiplier, which reflects the tail risk of derivatives portfolios more comprehensively.[16] The recommended extended SA-CCR methodology would address, under a standardized framework, a scenario in which banking organizations allocate collateral for SFTs and derivative contracts that are subject to a single QXPMNA.

Extended SA-CCR would integrate SFTs into the SA-CCR methodology by treating the collateral components subject to a QXPMNA as a derivative contract, in particular a forward sale or forward purchase of non-cash collateral depending on whether the position is a repo, reverse repo, or margin loan. Under this treatment, the mark-to-market component of the SFT instruments would be included in both the Replacement Cost ("**RC**") and PFE calculations

[16] ISDA, FIA, SIFMA, *Cross-product Netting Under the US Regulatory Capital Framework* (Apr. 2025), *available at* https://www.isda.org/a/B4YgE/Cross-product-Netting-Under-the-US-Regulatory-Capital-Framework.pdf.

under SA-CCR.[17] The supervisory haircuts traditionally applied to the collateral leg in the RC and PFE multiplier calculations would not be necessary in this context because the future price volatility of the underlying asset would already be reflected in the PFE hedging set add-on calculation through applying the appropriate supervisory factor using the SA-CCR asset class definitions. The extended SA-CCR methodology would permit the forward exposure from the SFT to function as a risk-increasing or risk-reducing position, depending on its nature, with the underlying collateral classified into the relevant asset class. This offset would be subject to a hedge disallowance factor to reflect the application of basis charges for the interest rates and credit asset classes or per-underlier basis charges for the equities and commodities asset classes between the SFT collateral and derivatives risk factor. This feature is designed to incorporate an added level of conservatism into the capital calculation process.

To be clear, the Associations are not recommending that the extended SA-CCR methodology apply to standalone SFT netting sets. They should be risk weighted using the revised collateral haircut approach. For portfolios consisting of both SFTs and derivatives, in order to reflect the risk mitigation benefits of enforceable cross-product netting arrangements, a banking organization should have the discretion to choose between recognizing a QXPMNA or continuing to apply the existing standardized methodologies to each product class individually. That discretion would resolve the need to address resulting cliff effects based on differences in the collateral haircut approach and SA-CCR.

In implementing this recommended approach, it is critical for banking organizations to have the ability to elect to treat settled-to-market ("**STM**") client-facing exposures on cleared transactions as collateralized-to-market ("**CTM**") when calculating exposure amounts under SA-CCR. Under the current SA-CCR framework, a banking organization may elect to treat an STM derivative contract as a CTM derivative contract only if the derivative contract is a cleared transaction.[18] That election is not available for client-facing derivatives or bilateral derivatives. Accordingly, it is necessary to expand the scope of transactions eligible for this election to include bilateral and client-facing derivatives, and related QXPMNA exposures. Otherwise, futures transactions—which generally are STM—and repo transactions (modelled as forward sales or purchases) will result in different sub-netting sets if the repo transactions are considered CTM. The current narrow scope of this election vitiates any recognition benefits of cross-product netting agreements.[19] Portfolio 3 illustrates the importance of this issue.

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17 In the context of U.S. Treasury transactions, the extended SA-CCR methodology would treat repo transactions involving Treasury securities as forward-settling interest rate derivatives. Under this approach, banking organizations would align these exposures to the interest rate asset class, bucketed by USD currency, and determine the net exposure amount of the cross-product portfolio using the respective effective notional amount for SFT and derivatives including the hedge disallowance under extended SA-CCR.

18 Section 132(c)(5)(v) of the U.S. regulatory capital rules.

19 See comment letter from ISDA and SIFMA, *Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity*, (Jan. 16, 2024), *available at* https://www.isda.org/a/1ElgE/ISDA- and-SIFMA-Response-to-US-Basel-III-NPR.pdf (the "**ISDA/SIFMA B3E Letter**").

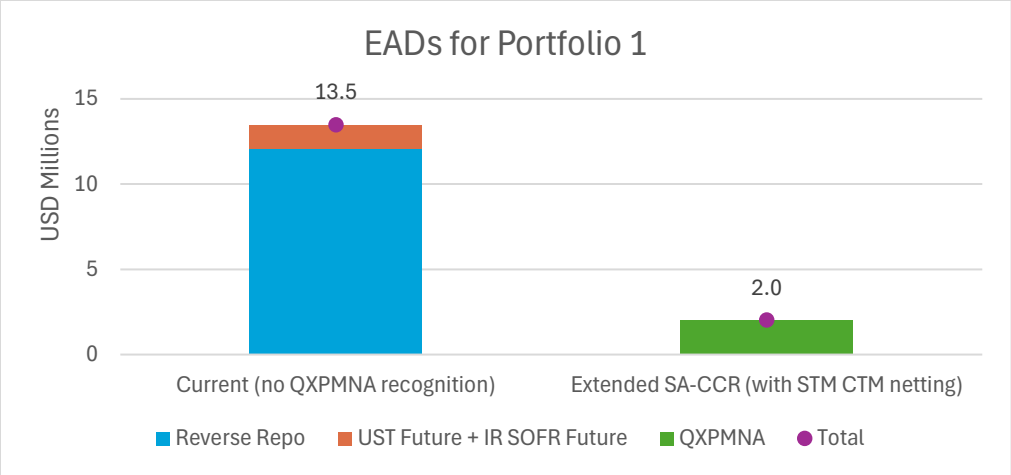
The extended SA-CCR methodology should be applied to transactions involving U.S. Treasury securities and more broadly, including with respect to (1) financing and derivatives portfolios within the USD interest rate asset class; (2) financing and derivatives portfolios referencing other currency interest rate asset classes, such as sovereign debt underliers; and (3) portfolios involving financing and derivatives on non-interest-rate asset classes. The Associations have developed several illustrative portfolios below to demonstrate how extended SA-CCR operates and its effects.

Portfolio 1

The first sample portfolio consists of exchange-traded derivatives on short-term interest rates and U.S. Treasuries, as well as a cleared reverse repo on U.S. Treasuries. The U.S. Treasury futures and the reverse repo are executed in connection with Fixed Income Clearing Corporation ("**FICC**") and Chicago Mercantile Exchange ("**CME**") cross-margining arrangement. The short-term SOFR interest rate futures contract is subject to a standalone margin agreement. All transactions in the portfolio are executed pursuant to an enforceable QXPMNA. Specific trade details are described below:

Portfolio 1		Bilateral or Cleared	Notional
Trade 1	3-month term reverse repo: $440mm cash vs. $440mm Treasury note	Cleared at FICC	$440,000,000 (Short)
Trade 2	Long 1,500 contracts 10-year T-note futures (expiring in 3 months)	Cleared at CME	$200,000,000 (Long)
Trade 3	Long SOFR 3-month futures (cleared contract, $150mm notional, expiring in 3 months)	Cleared at CME	$150,000,000 (Long)

By applying cross-product netting across all trades and using the extended SA-CCR methodology, the risk-reducing relationship between the U.S. Treasury reverse repo (a forward sale) and the long Treasury futures position is recognized. Additionally, this methodology captures offsetting exposures across maturity buckets between the short-term interest rate futures and long-term U.S. Treasury positions, as permitted under the SA-CCR framework for calculating PFE. The exposure at default ("**EAD**") for this portfolio is reduced from $13.5 million to $2.0 million:

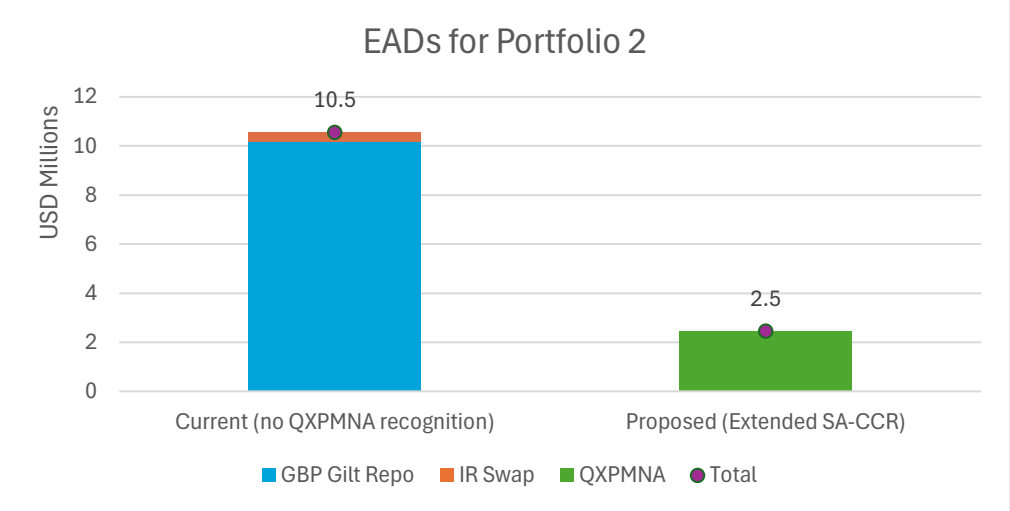


Portfolio 2

The application of extended SA-CCR within the interest rate asset class can be broadened beyond the scope of U.S. sovereign debt to incorporate other sovereign debt collateral and interest rate derivatives. A sample portfolio consisting of a SFT reverse repo on United Kingdom ("**UK**") Gilts and a Pound sterling ("**GBP**") interest rate swap cleared at LCH illustrates this below:

Portfolio 2		Bilateral or Cleared	Notional ($USD)
Trade 1	3-month term reverse repo on 10-year GBP Gilts: $500mm Gilts vs. $500mm cash equivalent	Bilateral	$500,000,000 (Short)
Trade 2	4-year cleared OTC interest rate swap: pay fixed vs. float on 3-month SONIA, $200mm cash equivalent	Cleared at LCH	$200,000,000 (Long)

Under the extended SA-CCR methodology, the cross-netted EAD captures the risk sensitivity of offsetting positions across maturity buckets – specifically between the long-term 10-year UK Gilt reverse repo and the medium-term 4-year interest rate swap referencing GBP. This results in a reduction in EAD for the portfolio from a gross amount of $10.5 million to a cross-netted amount of $2.5 million, reflecting a decrease of $8 million due to risk offsets:



Portfolio 3

Cross-product netting and the concept of a QXPMNA broadly involve recognizing offsetting positions between risk factors associated with the collateral leg of the SFT and the derivatives positions. The following sample portfolio illustrates this with respect to the equity asset class and the S&P 500 equity risk factor. This portfolio consists of a $100 million margin loan provided to the client that is collateralized via pledge of $120 million position in the SPY ETF. The banking organization is also long a bilateral $125M put option on SPY executed on the Chicago Board Options Exchange ("**CBOE**"), and long $117 million futures position on E-mini S&P500 (ES) contract executed on CME.

Portfolio 3[20]		Bilateral or Cleared	Notional ($USD)
Trade 1	Margin loan to client with S&P 500 SPY ETF provided as collateral: $100mm cash vs. $120mm S&P 500 SPY ETF	Bilateral	$120,000,000 (Short)
Trade 2	Long 2,000 SPY put options (Strike: 600; Expiry: Sept 19, 2025)	Cleared at CBOE	$125,754,000 (Short)
Trade 3	Long 370 E-mini S&P 500 futures (Settlement: Sept 2025; Contract multiplier: $50)	Cleared at CME	$117,475,000 (Long)

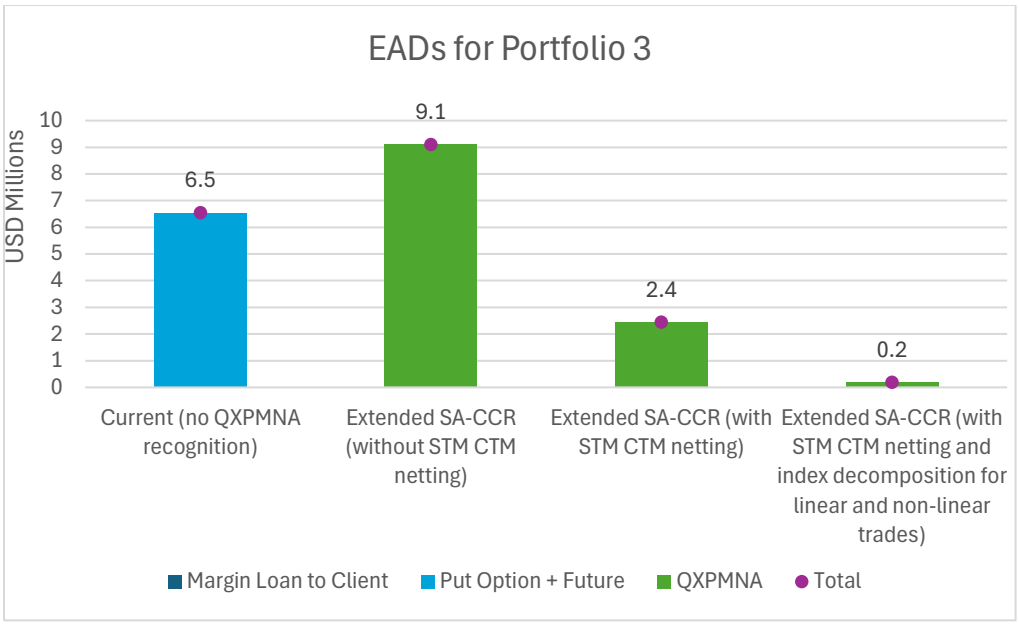
[20] This example involves different minimum margin period of risk ("**MPoR**") requirements for different instruments: 10 days for the margin loan and 5 days for the client-facing cleared put options. While the extended SA-CCR framework allows for transaction-level MPoR per product, applying offsets remains challenging. To ensure that potential market movements for one product align with the volatility time window of another, it is necessary to use the maximum MPoR across products. Therefore, we have adopted a uniform minimum MPoR of 10 days for all the instruments in the extended SA-CCR calculation.

This portfolio includes a bilateral CTM position (the margin loan and associated put option) alongside an STM position in a cleared futures contract. The collateral leg of the margin loan represents a forward sale of the SPY ETF, offsetting the long position in the cleared E-mini S&P 500 futures contract. However, under current rules, without the proposed changes to allow STM transactions to be treated as CTM, this economically offsetting relationship would not be recognized. As a result, banking organizations would elect not to apply the extended SA-CCR methodology because that methodology would materially overstate EAD. In this example, the EAD would increase from $6.5 million to $9.1 million under the extended SA-CCR due to only partial recognition of cross-product offsets in respect of the SPY put options and the S&P 500 SPY ETF collateral—both of which are short the SPY risk factor. With the proposed changes to allow STM transactions to be treated as CTM under the extended SA-CCR framework, the EAD would decrease from $9.1 million to $2.4 million.

This portfolio also highlights a separate issue under SA-CCR: banking organizations are permitted to decompose indices into their constituent names when calculating EAD for *linear* trades—but that is not permitted not for *non-linear* trades. In this case, both the forward sale of SPY collateral and the E-mini S&P 500 futures position are linear trades, but they reference different reference entities for purposes of SA-CCR (SPY and E-mini S&P 500). Although each index is comprised of the same constituent names, the rules treat them as separate indices given the slight differences in weightings. Single-name netting, accordingly, is not permitted unless decomposition is elected.

If a banking organization elected to decompose, the Associations believe decomposition should be permitted under SA-CCR for non-linear transactions, in particular for plain-vanilla options.[21] Recognizing index decomposition for non-linear instruments would better reflect actual risk-reducing relationships and would reduce the EAD in this example to $0.2 million.

[21] ISDA/SIFMA B3E Letter, pp. 123-125.



In addition, offsets across equity collateral and derivatives through the extended SA-CCR methodology should also be applicable to derivative contract netting sets. One example relates to collar financing transactions, in which the volatility of the collateral that is financed is perfectly offset by a combination of a short put option and a long call option in respect of that collateral. Recognizing this offset through the extended SA-CCR methodology would increase risk sensitivity.

Additionally, the extended SA-CCR methodology should be considered for other asset classes—such as credit and commodities—where a valid QXPMNA exists that permits closeout and settlement on a net basis across products in the event of counterparty default or insolvency, including with respect to SFT instruments with credit or commodity predominant risk factors. With respect to transactions with credit or commodity underliers, the proposed extended SA-CCR methodology would treat SFT exposures as forward sale or purchase exposures of credit or commodities instruments, as applicable, in a manner broadly equivalent to instruments with interest rate or equity underliers subject to hedge disallowance. The Associations would welcome the opportunity to engage with the Agencies to provide additional examples for credit and commodities asset classes.

Enforceable close-out netting arrangements are a fundamental tool for mitigating counterparty credit risk across a broad range of products and should be appropriately reflected in regulatory capital requirements. Recognizing the risk-mitigating effects of these netting agreements reduces otherwise excessive capital requirements and expands the capacity of banks to intermediate in capital markets—not just in the U.S. Treasury market but also across, for example, sovereigns, agencies, TBAs, and equity markets. Ultimately, appropriate recognition of enforceable cross-product netting agreements would promote both capital and liquidity efficiency across a wide range of financing and derivatives markets. Sudden increases in perceived risk and margin calls can lead to forced asset sales and dislocated pricing. Broader recognition of cross-product close-out rights can act as a stabilizing force in these environments

by improving capital efficiency, preserving liquidity, and reinforcing the ability of banking organizations to provide critical market intermediation activities, including during stress.

More broadly, the Agencies should consider revisions to further aspects of the regulatory capital framework and other bank prudential requirements to permit banking organizations to apply the extended SA-CCR methodology with respect to a QXPMNA, including the total leverage exposure calculation, single-counterparty credit limits and contributions to QCCP default funds.[22] The Agencies also should revise the QXPMNA definition to cover the full scope of products that may be subject to a QXPMNA, including SFTs, OTC derivatives and cleared transactions. The Associations would welcome the opportunity to engage with the Agencies regarding the application of the extended SA-CCR methodology in the regulatory capital framework and in other bank prudential requirements.

B. The Agencies should revise Tier 1 leverage ratio requirements.

The Proposal references that the Tier 1 leverage ratio "would continue to exceed the risk-based requirement" in respect of "about half of depository institution subsidiaries of GSIBs."[23] The Proposal also identifies that revisions to the Tier 1 leverage ratio "would implicate section 171 of the Dodd-Frank Act", broadly referred to as the "**Collins Amendment**".[24]

The fact that many depository institution subsidiaries of GSIBs would remain bound by Tier 1 leverage ratio requirements is illustrative of the need for Tier 1 leverage reform. For many banking organizations (both GSIBs and non-GSIBs), Tier 1 leverage requirements may represent a binding constraint. As reflected in the Proposal and referenced above, binding leverage ratio requirements can lead to distortions, particularly in respect of low-risk and low-margin activities such as U.S. Treasury market intermediation. Although the Collins Amendment is a relevant consideration, the Collins Amendment does not preclude reform of the Tier 1 leverage ratio, as demonstrated in prior Agency rulemakings.[25]

The Collins Amendment requires that minimum leverage capital requirements not be "quantitatively lower than the generally applicable leverage capital requirements that were in effect for insured depository institutions as of July 21, 2010" and defines the "generally applicable" leverage requirements by reference to minimum ratios of tier 1 capital to average

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22 ISDA, FIA, SIFMA, *Discussion Paper – CCP Cross-Margining Arrangements Default Fund Contributions Under the U.S. Regulatory Capital Rules* (July 14, 2025), *available at* https://www.isda.org/a/lUpgE/Paper-on-Treatment-of-Banking-Organization-Contributions-to-a-QCCP-Default-Fund.pdf.

23 90 Fed. Reg. at 30,785, fn. 29.

24 90 Fed. Reg. at 30,785, fn. 29.

25 Federal Reserve, FDIC, OCC, *Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio for Depository Institutions*, 85 Fed. Reg. 32,980 (June 1, 2020); Federal Reserve, *Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio*, 85 Fed. Reg. 20,578 (Apr. 14, 2020).

total assets applicable to insured depository institutions under the prompt correction action framework "regardless of total consolidated asset size or foreign financial exposure."[26] As part of a broader review of the U.S. regulatory capital and leverage framework and given the effects of the Tier 1 leverage ratio on U.S. Treasury market intermediation in particular, the Agencies should consider revisions to Tier 1 leverage ratio requirements. For example, the minimum leverage ratio for an insured depository institution as of July 21, 2010, regardless of total consolidated asset size or foreign financial exposure, was 3%.[27] Accordingly, under the plain language of the Collins Amendment, the relevant point of historical comparison for the "quantitatively lower test" is a Tier 1 leverage ratio requirement of 3%, which is lower than the current 4% requirement. As part of a broader review of the U.S. regulatory capital and leverage framework and the effects of the Tier 1 leverage ratio on U.S. Treasury market intermediation in particular, the Agencies should consider revisions to Tier 1 leverage ratio requirements in future rulemaking.

III. The Agencies should adopt the proposed TLAC and LTD recalibrations and should not introduce an additional LTD haircut to the TLAC calculation. More generally, the Agencies should eliminate the LTD requirements for U.S. GSIBs and rescind the 2023 proposal to expand LTD requirements beyond GSIBs.

A. Recalibrating the external TLAC leverage buffer and the leverage-based LTD requirement to align with the changes to the eSLR buffer is appropriate.

The Agencies calibrated the external TLAC leverage buffer and the leverage-based LTD requirement based, in part, on the eSLR buffer. Aligning these requirements to changes to the eSLR buffer is appropriate as it would maintain the original intent of the Agencies.

Specifically, the Agencies set the TLAC leverage buffer at 2% to align with the eSLR buffer, and the proposal would amend the calibration from 2% to 50% of a GSIB's Method 1 surcharge to maintain alignment with the eSLR buffer. As the Agencies state in the preamble to the final 2017 TLAC rule, the external TLAC leverage buffer was calibrated to "operate in a similar manner to the buffer in the enhanced supplementary leverage ratio."[28]

In addition, the Agencies set the leverage-based LTD requirement at 4.5% of total leverage exposure, which the Agencies calibrated by starting with the amount required to satisfy the minimum SLR requirement (3%), adding the eSLR buffer (2%), and subtracting a 0.5%

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26 12 U.S.C. §§ 5371(a)(1)(A), 5371(b)(1).

27 Under the Agencies' prompt corrective action framework, as of July 21, 2010, the leverage ratio requirement for "adequately capitalized" status was (i) at least 4%, or (ii) at least 3% if the depository institution was rated composite 1 under the CAMELS rating system in its most recent examination and, for a state member bank or state nonmember bank, was not experiencing or anticipating significant growth.

28 Federal Reserve, *Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations*, 82 Fed. Reg. 8,266, 8,276 (Jan. 24, 2017).

balance sheet depletion allowance. The Agencies would maintain the conceptual underpinning of this calibration by retaining the 3% corresponding to the minimum SLR requirement and the 0.5% balance sheet depletion allowance, but would change the 2% corresponding to the eSLR buffer to 50% of a GSIB's Method 1 surcharge. This would result in a total leverage-based LTD requirement of 2.5% plus 50% of a GSIB's Method 1 surcharge. In addition, the Agencies calibrated the LTD requirements based on the capital refill framework, under which a GSIB is required to hold sufficient LTD to recapitalize the GSIB to regulatorily mandated levels if the GSIB's going-concern capital is completely depleted. While we disagree with the premise of the capital refill model and believe it requires unnecessarily high levels of LTD, maintaining that conceptual framework requires reflecting any change to the eSLR buffer in the leverage-based LTD requirement.

B. The Agencies should not introduce, for purposes of the TLAC calculation, a haircut for LTD maturing in one to two years and should eliminate the parallel existing haircut under the LTD calculation.

Question 14 in the proposal asks whether, for purposes of minimum TLAC requirements, the Agencies should apply a 50% haircut to the principal amount of LTD maturing in one to two years. Under the current TLAC rule, this haircut applies only to a GSIB's minimum LTD requirements, not its minimum TLAC requirements.

The Agencies should not introduce such a haircut. In addition, if the Agencies do not eliminate the separate LTD requirement as we request in Section III.C. below, the Agencies should eliminate the existing 50% haircut under the LTD calculation for LTD maturing in one to two years. Firms subject to the TLAC requirements overwhelmingly call LTD instruments prior to the last year before maturity. As a practical matter, this eliminates any benefit that could result from introducing a TLAC calculation haircut or maintaining an LTD calculation haircut. Such haircuts, however, impose costs by needlessly impairing firms' funding strategies. Moreover, if the Agencies introduce a new haircut for purposes of the TLAC calculation, firms may consider having an additional call two years prior to the maturity of the LTD. This additional optionality might be difficult to price due to uncertainty as to whether the issuer would exercise the call with two years until maturity, one year until maturity, or not at all. This uncertainty could lead to materially higher costs for issuers.

C. The Agencies should eliminate the LTD requirements for the U.S. GSIBs and rescind the 2023 proposal to extend the LTD requirements beyond GSIBs.

The Agencies should eliminate the LTD requirement for the U.S. GSIBs. Where a TLAC requirement already exists, as is the case with the U.S. GSIBs, the imposition of a separate LTD requirement is premised on the idea that only debt—not equity—will remain after the failure of an institution and, as such, only debt can be "gone-concern loss absorbing capital." Since the rule was finalized in 2016, all of the U.S. GSIBs have adopted single-point-of-entry ("**SPOE**") resolution plans with secured support agreements. These secured support agreements contain triggers that, if breached, would result in the top-tier entity filing for bankruptcy long before its equity has been depleted. As a result, after the failure of an SPOE firm there would be both equity and debt available as gone-concern loss absorbing capital, obviating the need for the

Agencies to dictate that a certain percentage of TLAC must be comprised of debt rather than equity.

We also urge the Agencies to rescind the 2023 LTD proposal titled "Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions."[29]

[29] Federal Reserve, FDIC, OCC, *Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions*, 88 Fed. Reg. 64524 (Sept. 19, 2023).

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 to promote the functioning of the framework across market conditions and throughout the business cycle. Please contact Lisa Galletta at lgalletta@isda.org or 646-289-5419, Guowei Zhang at gzhang@sifma.org or 202-962-7340, or Jacqueline Mesa at jmesa@fia.org or 202-772-3040 if you wish to discuss the points raised in this letter further.

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Appendix

The Associations have included below select additional recommendations that could be addressed in future rulemakings to enhance the U.S. regulatory capital framework such that it functions appropriately through the cycle from the perspective of banking organizations' market intermediation activities, particularly U.S. Treasury market intermediation.

- ***Exemptions for VaR backtesting breaches during periods of stress.*** Under the current U.S. market risk capital framework, a banking organization is required to identify the number of business days for which its actual daily net trading loss exceeds the corresponding daily VaR-based measure and apply a multiplication factor that corresponds to the number of exceptions for purposes of calculating its VaR-based and stress VaR-based capital requirements for market risk.[30] Following the COVID-era market volatility in March 2020, banking organizations were permitted to apply the multiplication factor that applied as of December 31, 2019 (i.e., the period prior to the COVID crisis) through September 30, 2020 in light of concerns that backtesting exceptions for that period may have been caused by market volatility.[31] To reduce procyclicality, there should be a mechanism in the U.S. regulatory capital rules to review and except in periods of stress these backtesting exceptions when calculating VaR-based and stress VaR-based market risk, to the extent that the exception did not occur as a result of model shortcomings.

- ***Calibration of weighted short-term wholesale funding indicator***: The weighted short-term wholesale funding indicator determined in the FR Y-15 currently assigns a 25 percent weighting to repos secured by U.S. Treasuries. The weighted short-term wholesale funding indicator affects the application of standardized liquidity requirements and liquidity reporting requirements, as well as categorization, under the tailoring framework,[32] and the GSIB Method 2 score. This indicator can therefore act as a binding constraint with respect to tailoring

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30 Table 1 to Section 204 of the U.S. regulatory capital rules.

31 Federal Reserve, *COVID-19 Supervisory and Regulatory FAQs*, Regulatory Capital – Market Risk (posted May 1, 2020), *available at* https://www.federalreserve.gov/covid-19-supervisory-regulatory-faqs.htm. Similarly, for purposes of the CCAR 2020 resubmission, firms were permitted to exclude exceptions from March 6, 2020 to March 27, 2020 in calculating backtesting multipliers. Federal Reserve, *Comprehensive Capital and Analysis Review 2020 Resubmission Questions and Answers*, pp. 1-2 (Nov. 2020), *available at* https://www.federalreserve.gov/publications/files/CCAR-Resubmission-QAs.pdf.

32 A Category III banking organization with at least $75 billion in average weighted short-term wholesale funding is subject to a 100 percent outflow adjustment percentage and 100 percent required stable funding adjustment percentage for purposes of the liquidity coverage ratio and net stable funding ratio, respectively, rather than 85 percent. Additionally, a Category IV banking organization with $50 billion or more in average weighted short-term wholesale funding is subject to a 70 percent outflow adjustment percentage and 70 percent required stable funding adjustment percentage under the LCR and NSFR, respectively, whereas a Category IV banking organization with less than $50 billion in average weighted short-term wholesale funding is not subject to the LCR or the NSFR.

categorization for some non-GSIB banking organizations, and it also factors into GSIB scores and surcharges. The Federal Reserve should reassess the calibration of this indicator for U.S. Treasury-backed repos, particularly cleared repos.

- ***Scope of GMS***: The Federal Reserve should reassess the scope of firms subject to the global market shock ("**GMS**") component of its supervisory stress tests, as well as the calibration of shocks in the GMS, including in light of the potential effects of the GMS on U.S. Treasury market intermediation.

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 76 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 ISDA's website: www.isda.org.

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 nearly 1 million employees, we advocate for 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).

FIA is the leading global trade organization for the futures, options, and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's mission is to support open, transparent, and competitive markets; protect and enhance the integrity of the financial system; and promote high standard professional conduct. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers.