IACPM

October 7, 2025[1]

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. OP - 1828

Jennifer M. Jones, Deputy Executive Secretary
Attention: Comments -- EGRPRA
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064–ZA39

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219
Docket ID OCC-2023-0016

Re: **EGRPRA**
Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 90 Fed. Reg. 35241 (July 25, 2025)

Ladies and Gentlemen:

The International Association of Credit Portfolio Managers ("**IACPM**") appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (collectively, the "**Agencies**") on the above-referenced joint notice of regulatory review and request for comment (the "**Request for Comment**") under Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 12 U.S.C. 3311 ("**EGRPRA**").

Introduction

The IACPM is a global industry association established in 2001 to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. The IACPM's institutional member firms comprise the world's largest financial institutions, and as such overlap with the membership of several other financial industry associations.

Our perspective is unique, however, in that the IACPM represents the teams within those financial institutions who have responsibility for the prudential management of such institutions' credit portfolios, including actively controlling concentrations, adding diversification, managing the return of the portfolio's components relative to their risk, and allocating capital to new credit exposures. In addition, our members also include investors, insurers, and reinsurers, which participate in risk sharing transactions as sellers of credit protection.

As we have noted previously, "[t]o fulfill their vital role in being able to provide liquidity to the US market, it is imperative that US banks have access to all available and appropriate risk mitigation tools."[2] Given our risk-management perspective, we welcome the Agencies' invitation to comment on elements of the bank regulatory capital rules that are outdated, unnecessary or unduly burdensome, particularly where they impede sound bank risk management practices. Our comments below highlight three reforms:

1) Recognition of the risk-mitigating benefits of directly-issued CLNs.
2) Recalibration of the simplified supervisory formula approach ("**SSFA**").
3) Recognition of the risk mitigating benefits of credit-insurance policies written by prudentially supervised, well-capitalized multiline insurers.

Comments

1. The capital rules should fully recognize the risk-mitigating benefits of CLNs issued directly by banks.

The Agencies should fully recognize the risk-mitigating benefits of cash-funded (*i.e.*, prefunded) credit-linked notes ("**CLNs**") issued by banks. On September 28, 2023, the Federal Reserve Board ("**FRB**") posted FAQs on its website[3] to provide guidance on the use of CLNs to transfer credit risk. Although the FAQs confirm that bank directly-issued CLNs are valid capital and risk management tools, they nonetheless:

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[2] *See* the joint Basel III Endgame comment letter of the IACPM and the International Trade and Forfaiting Association ("**ITFA**"), dated January 16, 2024 (the "**Joint IACPM / ITFA Comment Letter**"), available at: https://iacpm.org/wp-content/uploads/2024/01/2023-ITFA-IACPM-US-Basel-Comment-Letter-FINAL-.pdf.

[3] *See* Board of Governors of the Federal Reserve System, *Frequently Asked Questions about Regulation Q* (September 28, 2023), available at:

https://www.federalreserve.gov/supervisionreg/legalinterpretations/reg-q-frequently-asked-questions.htm.

- Require a bank to "request a reservation of authority under the capital rule for directly issued credit-linked notes in order to assign a different risk-weighted-asset amount to the reference exposures" and

- Provide that any FRB approval may be conditioned on additional limitations not described in the FAQ itself. The FRB's approvals typically state that "this action applies only to the subject CLN transaction and other substantially identical CLN transactions up to an aggregate outstanding reference portfolio principal amount of the lower of 100 percent of the bank's total capital or $20 billion."

In short, the individualized reservation-of-authority process, the hard volume cap, and the inherent timing uncertainty substantially curtail the usefulness of directly-issued CLNs as a scalable, programmatic risk-transfer mechanism for U.S. banks. The FRB cites two technical reasons for imposing this cumbersome process:

1) A directly-issued CLN may not satisfy the technical requirement that the credit derivative be executed under standard industry credit derivative documentation.

2) The issuance proceeds are generally owned outright by the issuing bank, rather than held as collateral in which the issuing bank has only a security interest.

The very attributes the FRB questions are precisely what makes them valuable, not problematic. When a bank issues CLNs directly:

- **Immediate, unconditional funding**. Investors remit the full purchase price on the issuance date with no conditions, and the proceeds become the bank's property. The bank's credit protection is effectively prefunded.

- **No counterparty risk**. Cash or other financial collateral held outright by the bank is the most robust credit risk mitigant: the bank has the funds in hand *before* any credit losses materialize on the referenced exposures, and the bank is insulated from counterparty risk.[4]

- **Avoidance of enforcement delays.** When a bank holds only a security interest in the cash proceeds, it must successfully enforce its security interest to obtain those proceeds. Its right to do so may be challenged by CLN investors or other third parties, thus causing delays precisely when protection from credit losses is critical.

[4] While a bank can achieve credit risk transfer via a credit default swap with an eligible counterparty executed under standard industry credit derivative documentation, this would introduce counterparty risk. Indeed, a significant portion of standard industry documentation is devoted to counterparty risk, including by (i) specifying events of default (most notably, failure to pay), early termination events and close-out provisions, (ii) requiring assurances that the counterparty will comply with law, maintain required authorizations and furnish specified information, (iii) requiring representations and warranties as to the counterparty's existence and ability to execute the trade, and (iv) prescribing netting and set-off procedures. Directly-issued CLNs entail no counterparty risk and provide immediate, prefunded credit protection.

Accordingly, the Agencies should revise the capital rules to explicitly recognize cash-funded, directly-issued CLNs. If a bank issues a CLN that (i) is fully prefunded by investors at inception and (ii) places the proceeds under the bank's ownership, the bank should be permitted—without a case-by-case reservation-of-authority process or volume cap—to recognize the resulting credit risk transfer. Codifying that treatment would give banks a clear and durable mechanism for shedding credit risk.

2. The SSFA should be recalibrated.

When the Agencies established SSFA following the financial crisis, they indicated their intent to "monitor implementation of SSFA and, based on supervisory experience, consider what modifications, if any, may be necessary to improve SSFA in the future." The time has come to recalibrate the SSFA. Indeed, as far back as eight years ago, a report by the U.S. Treasury Department observed that:

> Dodd-Frank and various rulemakings implemented to address pre-crisis structural weaknesses in the securitization market may have gone too far toward discouraging securitization. By imposing excessive capital … requirements on securitizers, recent financial regulation has created significant disincentives to securitization.[5]

European regulators have reached a similar conclusion. The European Commission's June 2025 amendments to the EU Securitisation Regulation recognized that while strict standards were appropriate after 2008, today "a better balance between safeguards and growth opportunities … needs to be found."[6]

There are three parameter values the Agencies should update: (1) the supervisory calibration parameter, referred to as the p-factor, which is currently set at 0.5 for securitizations and 1.5 for resecuritizations, (2) the 20% risk weight floor, and (3) the 0.5 scalar that applies to parameter W in the calculation of K_A.

--<u>The p-factor should be reduced</u>. As we explained in our comment letter on the Basel III Endgame proposal,[7] the value of the p-factor directly controls the extent to which banks can achieve meaningful recognition for credit risk mitigation through traditional and synthetic securitizations. The p-factor determines not only the size of the securitization capital surcharge, but also how the total securitization capital buffer is allocated across the capital structure – a higher p-factor results in a higher capital surcharge and greater capital density at senior levels of tranche seniority, whereas a lower p-factor has the opposite effects. The practical impact is that a higher p-factor increases the size of the junior tranche that the bank must pay to hedge (in the case of synthetic securitizations) or sell to third-party investors (in the case of traditional securitizations).

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[5] *See* 2017 Treasury Report, at p. 8.

[6] *See* Proposal for a Regulation of the European Parliament and of the Council (June 17, 2025) ("EU Proposal"), at p. 1.

[7] *See* the Basel III Endgame comment letter of the IACPM, dated January 16, 2024 ("IACPM B3E Comment Letter"), available at: https://iacpm.org/wp-content/uploads/2024/01/2023-IACPM-B3EG-Comment-Letter-Final.pdf.

The 2017 Treasury Report concluded that the p-factor is "already set at a punitive level that assesses a 50% surcharge on securitization exposures."[8] Similarly, the European Commission's impact assessment found current p-factor levels "excessively high and lead to unjustified levels of overcapitalization for some securitization transactions."[9]

We urge the Agencies to reduce the outdate value of the p-factor. Doing so will not only reduce the punitive level of capital required for securitizations, it will also improve the risk sensitivity of the SSFA.[10]

--The 20% risk weight floor should be reduced. When they adopted SSFA in 2013, the Agencies stated that they "believe that a 20 percent floor is prudent given the performance of many securitization exposures during the recent crisis."[11] In analyzing the floor several years later, the 2017 U.S. Treasury Report noted it had become misaligned with international standards:

> While this [20%] risk-weight floor, finalized in 2013, was consistent with the BCBS's recommended floor, the BCBS has since revised its securitization framework to lower the recommended floor to 15%. The European Banking Authority has similarly recommended that European regulatory bodies lower the minimum capital floor for qualifying senior tranches. For U.S. banks, the risk-weight floor remains 20% for structured securities. If this recommendation is adopted, U.S. banks may be placed at a competitive disadvantage to their European peers.[12]

The EU Proposal seeks to make further updates to the risk-weight floor.[13] In the U.S., significant post-GFC reforms, such as risk retention and enhanced underwriting standards, have significantly reduced securitization-risks. The Agencies should reduce the 20% risk weight floor to better align securitization risk weights with securitization risks.

--The 0.5 scalar that applies to parameter *W* should be reduced. Under the SSFA, parameter K_A represents the weighted average capital requirement for the underlying exposures, adjusted for

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[8] *See* U.S. Department of the Treasury, A Financial System That Creates Economic Opportunities – Capital Markets (October 2017) ("2017 Treasury Report"), at p. 100.

[9] *See* EU Proposal, at p. 9.

[10] See pp. 5-6 of the IACPM B3E Comment Letter for a discussion of the inverse relationship between the p-factor level and the risk sensitivity of the SSFA.

[11] *See* the Basel III Adopting Release, at p. 62119.

[12] *See* 2017 Treasury Report, at p. 98.

[13] The EU Proposal "introduces the new concept of a risk-sensitive risk weight floor, where the risk weight floors for senior securitisation positions are proportionate to the riskiness (i.e. average risk weights) of the underlying pool of exposures. This significantly increases the risk sensitiveness of the securitisation capital framework and decreases existing disincentives for the securitisation of portfolios with low risk weights." *See* EU Proposal, at p. 9.

nonperformance: $K_A = (1-W)K_G + 0.5W$, where W is the portion of the pool that is delinquent.[14] The 0.5 scalar value effectively assigns nonperforming underlying exposures a 50% capital requirement, which is more than four time greater than the capital requirement for most types of delinquent exposures under the standardized approach.[15] We urge the Agencies to reduce this arbitrary and punitive scalar value.

3. The capital rules should fully recognize the risk-mitigating benefits of credit risk insurance.

Credit risk insurance is a type of insurance that protects banks and other creditors from losses due to the non-payment by their customers. As we previously explained in a joint white paper with the ITFA (the "**White Paper**"),[16] while credit risk insurance issued by multiline insurers is a permitted form of "eligible guarantee" under the capital rules, the rule does not fully recognize the credit risk mitigating benefits of such insurance. Consistent with the White Paper's recommendations, the Agencies should:

- **Recognize prudentially regulated multiline insurers as *per se* eligible guarantors**. Under the current capital rules, even a highly-rated multiline insurer is treated as an ordinary corporate guarantor and therefore attracts a 100% substitution risk-weight—eliminating the economic effect of the guarantee at precisely the moment it is needed. The Agencies should add multi-line insurers that are subject to supervision and prudential capital and liquidity requirements, and licensed for credit underwriting, to the list of *per se* eligible guarantors, acknowledging that these firms, like banks, actively assume and manage principal credit risk. This is consistent with the Basel Framework, which includes not only banks, but also "prudentially regulated insurance companies" in the list of per se eligible guarantors.[17]

- **Allow the "issued and outstanding investment grade debt" requirement to be met at the holding-company level for wholly-owned subsidiaries licensed to underwrite credit insurance**. Regulated insurance operating companies rarely issue bonds directly; their debt is typically issued at the parent holding company. Counting the parent's listed, investment-grade securities toward the "issued and outstanding" requirement would prevent technically sound guarantors, wholly owned by an insurance group, from being disqualified for structural reasons and align the U.S. capital rules with the Basel

[14] Parameter W captures underlying exposures that are (i) 90 or more past due, (ii) subject to bankruptcy or insolvency proceeding, (iii) in the process of foreclosure, (iv) held as real estate owned, (v) deferring payments for 90 days or more days; or (vi) in default. The SSFA calculates the risk weight for any given securitization tranche based on the K_A value for that securitization and the tranche's attachment and detachment points.

[15] Under the standardized approach, most types of past due exposures carry a 150% risk weight, which corresponds to a 12% capital requirement. *See* 12 C.F.R. 217.32(k)(1).

[16] *See* Credit Insurance as a Credit Risk Mitigant to Diversify Risk under the Capital Rules, July 2023, which is appended to the Joint IACPM / ITFA Comment Letter.

[17] *See* CRE 22.76 (fn. 11).

Framework, which expressly permits the test to be met by the credit protection provider or its parent company."[18]

- **Apply bank-equivalent risk weights to qualifying insurers**. Under the existing capital rules, an exposure covered by even an AA-rated insurer is still slotted into the 100 percent corporate bucket, nullifying much of the guarantee's capital value. Assigning prudentially regulated insurers the same standardized weights that apply to banks—down to 20 percent for short-term, low-risk counterparties—would better reflect their solvency regime and more closely align with the Basel Framework.[19]

Conclusion

We appreciate the opportunity to respond to the Request for Comment. If you have any questions or would like additional information, please contact the undersigned.

Yours sincerely,

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cc: Christopher B. Horn
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[18] *See* CRE 22.76(3)(a)(I).

[19] *See* CRE 20.40 ("Exposures to securities firms and other financial institutions will be treated as exposures to banks provided that these firms are subject to prudential standards and a level of supervision equivalent to those applied to banks (including capital and liquidity requirements).").