



June 17, 2026

**Via Electronic Submission**

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

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

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

**Re: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations (OCC: Docket ID OCC-2026-0265, RIN 1557-AF52); (Federal Reserve: Docket No. R-1887, RIN 7100-AH20); (FDIC: RIN 3064-AF29)**

**Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets (OCC: Docket ID OCC-2026-0034, RIN 1557-AF49); (Federal Reserve: Docket No. R-1888, RIN 7100-AH21); (FDIC: RIN 3064-AG23)**

**Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (Federal Reserve: Docket No. 1889; RIN 7100-AH22)**

Ladies and Gentlemen:

On behalf of the Council of Federal Home Loan Banks (the "**Council**"), and with the unanimous support of the eleven Federal Home Loan Banks (each an "**FHLBank**") and the Office of Finance (the "**OF**" and, together with the FHLBanks, the "**FHLBank System**"), we appreciate this opportunity to comment on the above-referenced proposed rules (the "**Proposed Rules**") issued by the Office of the Comptroller of the Currency (the "**OCC**"), the Board of Governors of the Federal Reserve System (the "**Federal Reserve**"), and the Federal Deposit Insurance Corporation (the "**FDIC**" and, together with the OCC and the Federal Reserve, the "**Agencies**"). The Proposed Rules address the regulatory capital framework for prudentially regulated banks and are designed to substantially align with the final global recommendations of the Basel Committee on Banking Supervision (the "**Basel Committee**") that was adopted in December 2017.

The FHLBank System supports the Agencies' efforts to simplify and standardize the approaches for calculating capital requirements for banking organizations and commends the Agencies' proposed adjustments to improve risk sensitivity, including with respect to regulatory residential and commercial

real estate exposures and mortgage servicing assets (“**MSAs**”). In support of such efforts, the FHLBank System proposes several technical revisions to the Proposed Rules to reduce potential impacts to market liquidity for FHLBank consolidated obligations that could adversely impact the FHLBanks’ ability to provide funding to their member institutions. In this letter, the FHLBank System respectfully recommends revisions to the capital framework under the Proposed Rules so as to avoid increasing funding costs, diminishing demand for FHLBank consolidated obligations, and adversely impacting the FHLBank System’s ability to fulfill its statutory mission of supporting housing finance and community development.

The FHLBank System requests the Agencies refine the Proposed Rules in three principal areas to avoid unintended adverse consequences for the FHLBank System and the broader financial markets it serves: (1) the calibration of supervisory haircuts for GSE debt exposures; (2) the methodology for cross-product netting recognition for derivatives and repo-style transactions; and (3) the treatment of FHLBank advances under the revised GSIB surcharge framework.

In addition, in a separate, mortgage-focused comment letter, the FHLBanks recommend targeted refinements to the standardized capital framework to better align capital requirements with the actual risk profile of residential mortgage activities in order to support community bank participation in housing finance. In particular, the FHLBank System: (1) supports the removal of the CET1 deduction for MSAs and recommends a more risk-sensitive calibration of the applicable risk weight; (2) supports the use of risk weights based on loan-to-value (“**LTV**”) for residential mortgage loans; and (3) proposes that private mortgage insurance be recognized as a risk mitigant in LTV calculations for residential mortgage exposures. The FHLBank System also requests that the Agencies reconsider the capital treatment of credit enhancement obligations retained by FHLBank members under the Acquired Member Asset programs, operated by various FHLBanks, which, under current and proposed rules, are frequently subject to capital requirements that exceed their historically low-loss experience and do not reflect their limited, collateralized, second-loss position.

## **I. The FHLBank System**

The 11 FHLBanks are government-sponsored enterprises (“**GSEs**”) of the United States, organized under the authority of the Federal Home Loan Bank Act of 1932, as amended, and structured as cooperatives. Each FHLBank is independently chartered and managed. Congress established the FHLBanks to provide liquidity to their approximately 6,300 member institutions to increase the availability of credit for residential mortgages, community investments, and other services for housing and community development. The FHLBanks, through the OF, issue debt securities (referred to as “**consolidated obligations**”) for which each FHLBank is jointly and severally liable — that is, if any FHLBank is unable to make its debt payment, each of the other 10 FHLBanks would be, individually and collectively, responsible for paying the debt in full. The FHLBanks serve as a stable, dependable, and low-cost source of funds for their member institutions and play a critical role in housing affordability, community development, and market stability.

To effectively provide services to their members and satisfy their statutory mandate, the FHLBanks rely on the funds raised by the consolidated obligations they issue. A number of factors, including the joint and several liability of each FHLBank for such obligations, robust regulation by the Federal Housing Finance Agency (“**FHFA**”), the FHLBanks’ GSE status and their credit ratings, result in a uniquely low risk profile for investors who purchase FHLBank consolidated obligations. This allows the FHLBanks to obtain financing on favorable terms to meet their mission. The continued demand for FHLBank consolidated obligations, and the liquidity of the market for such obligations, is essential for the FHLBanks to continue to perform their statutory mandate of providing readily available, low-cost sources of funds to FHLBank members, allowing those members to provide favorably priced loans to their customers for housing and community development throughout the United States.

## **II. Treatment of FHLBank Consolidated Obligations in Collateralized Transactions Under the Market Price Volatility Haircut Framework**

The FHLBanks reiterate and supplement the comments in their January 16, 2024 comment letter (the “**Prior Comment Letter**”) in response to the Agencies’ prior proposed rulemakings addressing capital requirements applicable to large banking organizations and banking organizations with significant

trading activity (the “**Prior Proposed Rules**”), specifically with respect to the treatment of the credit risk mitigation afforded to collateralized transactions for the purpose of credit risk exposure calculations.<sup>1</sup> Under the capital requirements related to credit risk, large banks and banking organizations with significant trading activity may recognize the risk-mitigation benefits of repurchase and reverse repurchase (“**repo-style**” or “**repo**”) and certain other collateralized transactions through the collateral haircut approach. The collateral haircut approach allows banking organizations to reduce their credit exposure for a collateralized transaction by the value of the collateral they receive from counterparties, adjusted through a formula that includes standard supervisory haircuts to account for market price volatility in the value of the collateral. The supervisory haircut applied to the value of any collateral is determined by reference to a chart that varies based on asset type, residual maturity, and the risk weight of the issuer.

The FHLBank System supports the Agencies’ revision of the formula for determining exposure under the collateral haircut approach to recognize the risk-mitigating benefits of netting and portfolio diversification and generally supports revisions to the supervisory haircuts to simplify and improve risk sensitivity, including the addition of greater granularity by residual maturity. Further, the FHLBank System appreciates that, under the Proposed Rules, the current haircuts assigned to GSE exposures would no longer be combined with all other non-sovereign, non-securitization investment-grade exposures, as was proposed under the Prior Proposed Rules. However, the FHLBank System is concerned that the proposed revisions to the supervisory haircuts could harm the demand for, and pricing of, FHLBank consolidated obligations, as described further below.

#### A. The Strong Credit Quality, Stability and Liquidity of FHLBank Consolidated Obligations

As noted in the Prior Comment Letter, the market for FHLBank consolidated obligations is one of the most stable and resilient in the world. This is attributable to, among other things, joint and several liability of each FHLBank for FHLBank consolidated obligations and the robust regulation of the FHLBanks by the FHFA. In addition, as GSEs, the credit ratings of the FHLBanks and their consolidated obligations have traditionally been linked to the credit rating of the United States; the ratings afforded to FHLBank consolidated obligations and U.S. debt have historically moved in tandem and commensurately.<sup>2</sup> Investors purchase FHLBank consolidated obligations because of the stability and resiliency of such consolidated obligations that result from these factors, and many use FHLBank consolidated obligations in repo-style collateralized transactions with banking organizations, which contributes to the deep and liquid secondary market for FHLBank consolidated obligations.

The superior credit profile of FHLBank consolidated obligations is reflected in the treatment of such securities in other U.S. regulatory frameworks. For example, as noted in the Prior Comment Letter, FHLBank consolidated obligations are recognized as government securities under the Securities Exchange Act of 1934 and the Investment Company Act of 1940. Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940 recognizes government securities, such as FHLBank consolidated obligations, as high-quality collateral in repurchase transactions and permits money market funds to treat repos collateralized by such securities as low-risk investments, subject to specified conditions. In addition, FHLBank consolidated obligations similarly receive preferential treatment under investment eligibility requirements to which national banks are subject, pursuant to 12 C.F.R. § 1.2(j)(5); 1.3(a).

Under both the current capital framework and the Proposed Rules, presumably for the reasons outlined above, FHLBank consolidated obligations, as GSE debt exposures, are afforded a 20% risk weight for the purpose of computing credit risk with respect to debt investments. By comparison, higher- and mid-grade sovereign debt obligations are assigned risk weights of 20% or 50%, respectively, reflecting credit quality that is comparable to or lesser than FHLBank consolidated obligations. This

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<sup>1</sup> Federal Home Loan Banks, Comment Letter on Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and Banking Organizations with Significant Trading Activity (Jan. 16, 2024), accessible at <https://www.fdic.gov/resources/regulations/federal-register-publications/2023/2023-regulatory-capital-rule-large-banking-organizations-3064-af29-c-271.pdf>.

<sup>2</sup> Currently, the FHLBanks have an issuer credit rating of Aa1/P-1 by Moody's Investors Service (“**Moody’s**”) and AA+/A-1+ by S&P Global Ratings (“**S&P**”). The consolidated obligations of the FHLBanks also carry credit ratings of Aa1/P-1 by Moody’s and AA+/A-1+ by S&P.

distinction is also reflected in the generally lower credit ratings of such sovereign debt obligations as compared with FHLBank consolidated obligations.<sup>3</sup>

**B. The Proposed Rules' Changes to Supervisory Haircuts Fail to Reflect the Credit Quality of FHLBank Consolidated Obligations and Could Impair Market Liquidity**

The FHLBank System believes that the proposed supervisory haircuts could adversely affect demand for, and pricing of, FHLBank consolidated obligations because such haircuts fail to reflect the superior creditworthiness, reduced stress volatility, and deep liquidity that distinguish FHLBank consolidated obligations from higher- and mid-grade sovereign obligations. By assigning supervisory haircuts to FHLBank consolidated obligations that are higher than those applied to lower-rated sovereign issuers, the Proposed Rules arguably would overstate the risk of FHLBank collateral and reduce their relative attractiveness as collateral — thereby diminishing the liquidity and depth of the FHLBank debt market.

Moreover, supervisory haircuts that overstate the volatility of FHLBank consolidated obligations potentially exacerbate procyclicality: during periods of market stress, inflated haircuts could increase the capital cost of holding FHLBank consolidated obligations as collateral, reducing demand for those debt obligations precisely when the FHLBanks are called upon to serve as countercyclical liquidity providers to their member institutions — a role that is central to the stability of the broader financial system and that depends on a liquid, well-functioning market for FHLBank consolidated obligations. The Proposed Rules' calibration of supervisory haircuts for GSE debt exposures is also inconsistent with the treatment of such securities in other U.S. regulatory frameworks, which, as noted above, treat GSE exposures preferably and in a manner similar to U.S. sovereign debt obligations. The superior credit and liquidity characteristics of GSE exposures warrant haircuts below those thresholds applied to higher- and mid-grade sovereign issuers.

To fulfill the Agencies' stated objective of amending supervisory haircuts to be more risk-sensitive, the Proposed Rules should reflect the lower stress volatility, superior credit quality, and deep market liquidity of FHLBank consolidated obligations by revising the supervisory haircuts applicable to GSE exposures. The FHLBank System therefore respectfully requests that the Agencies revise the supervisory haircuts assigned to GSE exposures to be more appropriately calibrated in comparison with the exposures of sovereign issuers of risk weight 20 or 50, at least to align with supervisory haircuts of 1% for residual maturity of less than 1 year, 3% for residual maturity of between 1 and 5 years, and 6% for residual maturity of 5 years or greater.

**III. Treatment of Cross Product Netting for Derivatives and Repo-Style Transactions**

The FHLBank System welcomes the Agencies' revisions under the Proposed Rules to recognize the risk-reducing benefits of cross-product netting between non-cleared derivatives and repo-style transactions under the standardized approach to counterparty credit risk, particularly in light of the removal of internal model methods that would otherwise recognize cross-product netting. However, the proposed methodology for recognizing cross-product netting is not sufficiently risk-sensitive, and as currently calibrated, may result in unnecessarily high capital charges that could constrain liquidity and market-making activities in bilateral derivatives and repo markets.

Under the Proposed Rules, non-cleared derivatives and repo-style transactions may be recognized together within a single netting set, provided they are subject to a qualifying, legally enforceable master netting agreement. Banks may recognize offsets between derivatives and repo-style exposures by treating eligible non-cleared repo-style transactions as forward derivatives transactions with the security underlying the repo-style transaction determining the asset class. To account for maturity mismatch between typically longer-dated derivatives transactions and shorter-dated repo-style transactions, the Proposed Rules would maintain two exposure measures that are calibrated by a maturity ratio and combined into a weighted average to obtain the exposure amount for the entire netting set.

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<sup>3</sup> The capital rules assign a 20% risk weight to Category 2 sovereign exposures, for which credit ratings range from Baa1 to Aa2 by Moody's and BBB+ to AA+ by S&P. Category 3 sovereign exposures are assigned a 50% risk weight, and credit ratings for those exposures range from Ba2 to Baa1 by Moody's and BB to BBB+ by S&P.

While this approach is a positive step, the Agencies' proposed methodology for calculating the cross-product netting benefit lacks risk-sensitivity and may not adequately provide capital relief to reflect the economic risk reduction achieved through portfolio-level offsets across derivatives and repo positions. Without appropriate capital relief, the Proposed Rules' impact could result in a disproportionate capital charge for banking organizations providing client clearing services and constrain liquidity and market-making activity in non-cleared derivatives and repo-style markets. Banking organizations would likely be forced to reduce the scale of their repo and derivatives activity, which could result in higher funding costs for repo market participants, reduced collateral velocity, diminished bank participation in FHLBank advances and other FHLBank services, and a corresponding contraction of the FHLBanks' capacity to serve their statutory mission to support housing and community development.

Accordingly, the FHLBank System respectfully requests that the Agencies revise their approach to implement a more risk-sensitive approach. Specifically, the FHLBank System urges the Agencies to implement an approach that reduces maturity mismatch penalties so that the maturity ratio adjustment (1) does not effectively negate the netting benefit for positions that, in practice, are continuously rolled and maintained as part of a stable portfolio and (2) provides for a fuller recognition of portfolio offsets achieved through cross-product netting, ensuring that the capital benefit more accurately reflects the genuine risk reduction accomplished by netting derivatives and repo portfolios.

#### **IV. Impact of Proposed Revisions to the GSIB Surcharge Framework on FHLBank Advances**

In connection with the Proposed Rules, the Federal Reserve has proposed revisions to the risk-based capital surcharge applicable to U.S. global systemically important bank holding companies ("GSIBs"), including material changes to the methodology for calculating the short-term wholesale funding ("STWF") indicator used in the Method 2 surcharge calculation. While the GSIB surcharge proposal is directed at the largest banking organizations, revisions to the STWF indicator have the potential to undermine the FHLBank System's ability to fulfill its statutory mission because FHLBank member institutions include several of the banking organizations subject to the GSIB surcharge.

Under the current GSIB surcharge framework, the STWF indicator measures a banking organization's reliance on short-term, less-stable funding sources relative to the overall size of its balance sheet. The Federal Reserve's proposed revisions would eliminate the relative nature of the STWF indicator by removing the risk-weighted assets denominator in favor of a STWF score solely based on a banking organization's STWF amount, multiplied by a coefficient calibrated to ensure the weighted STWF category constitutes approximately 20% of the total Method 2 surcharge calculation.

The FHLBank system is supportive of the Federal Reserve's approach to simplify the calculation of the STWF indicator and better align the indicator with systemic risk. However, to better align risk-sensitivity under the STWF indicator, FHLBank advances should be excluded from any category of wholesale funding measured by the STWF indicator. This is because FHLBanks, rather than providing funding rollover risk for GSIBs during a stress event, maintain a countercyclical liquidity buffer by ensuring rollover of maturing FHLBank advances. In addition, unlike many other forms of STWF, FHLBank advances are fully collateralized by high-quality assets pledged by the borrowing member, subject to robust underwriting and risk management, and provided under the supervision of the FHFA.

The FHFA imposes liquidity requirements on the FHLBanks to maintain periods of up to 30 days of positive cash balances net of cumulative daily cash flows, including assuming the renewal of all maturing advances.<sup>4</sup> In other words, FHLBanks are required by applicable FHFA regulations and guidance to hold cash sufficient to roll all maturing advances with its member borrowers. Including FHLBank advances under the STWF indicator creates misalignment where the FHFA requires FHLBanks to take measures to ensure roll of all maturing advances, while the GSIB surcharge framework creates a disincentive by penalizing GSIBs, implying that the FHLBanks' ability to roll maturing advances is not certain.

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<sup>4</sup> FHFA, Advisory Bulletin 2018-07, Liquidity Risk Management (Aug. 16, 2018), accessible at <https://www.fhfa.gov/advisory-bulletin/ab-2018-07>.

The GSIB surcharge sensitivity to FHLBank advances is inconsistent with the longstanding role of the FHLBank System as a stable, countercyclical source of liquidity for the financial system. During periods of financial stress, GSIBs may face the greatest need for supplemental liquidity from the FHLBanks, yet a higher STWF-driven surcharge could discourage such institutions from drawing on FHLBank advances at precisely the moment when such advances are most critical to financial stability. This procyclical outcome is contrary to the Federal Reserve's stated objectives for both the GSIB surcharge framework and the broader capital framework.

Accordingly, the FHLBank System respectfully requests that the Federal Reserve review its STWF methodology and exclude FHLBank advances from the STWF calculation or, in the alternative, apply a reduced weighting factor to FHLBank advances under the STWF indicator to reflect the substantially lower rollover risk and beneficial countercyclical liquidity purpose associated with such advances.

## **V. Extended Phase-in Period for Compliance**

In the Federal Register releases for the Proposed Rules, the Agencies solicit comment on the appropriate transition and phase-in compliance timeline for different aspects of the Proposed Rules, once final rules are adopted. Due to the many changes to the capital framework that would be made by the Proposed Rules, particularly the removal of internal models for large banking organizations and the addition and expansion of variables in several categories of exposure to be more risk-sensitive, banking organizations subject to the Proposed Rules will need substantial time to collect relevant information, conduct due diligence, and test systems to avoid complications when bringing their capital systems into compliance with the final rules.

The FHLBank System respectfully joins other commenters in requesting that the Agencies adopt a longer phase-in period for the compliance dates when the Proposed Rules are finalized and final rules are published. An extended phase-in period will allow banking organizations to implement the required changes in an orderly and thorough manner, reducing the risk of operational disruptions that could have downstream effects on the FHLBanks and their member institutions.

## **VI. Conclusion**

Based on the foregoing, the FHLBank System respectfully requests that the Agencies:

- Revise the supervisory haircuts applicable to GSE exposures under the collateral haircut approach to reflect the superior credit quality, reduced stress volatility, and deep market liquidity of FHLBank consolidated obligations, with haircuts calibrated at or below those assigned to sovereign exposures of risk weight 20 or 50;
- Revise their approach to cross-product netting between non-cleared derivatives and repo-style transactions in a netting set to provide fuller recognition of portfolio-level offsets and reduced maturity penalties;
- Revise the STWF indicator within the GSIB surcharge framework to reduce the disincentives for GSIBs to use FHLBank advances; and
- Adopt an extended phase-in period for compliance with the final rules to allow prudentially regulated banking organizations adequate time to implement the required changes.

The FHLBank System appreciates the Agencies' consideration of these comments and welcomes further dialogue on these matters.

Respectfully submitted,



Ryan Donovan  
President and Chief Executive Officer  
Council of Federal Home Loan Banks