June 18, 2026

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

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

Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15) (FRB Docket No. 1889, RIN 7100-AH22)

BlackRock, Inc. (together with its affiliates, "BlackRock")[1] respectfully submits comments to the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System (the "Federal Reserve" or "Board"), and the Federal Deposit Insurance Corporation (the "FDIC", together with the OCC and Federal Reserve, the "Agencies") in response to the proposed

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers, and other financial institutions, as well as individuals around the world.

modifications to the regulatory capital requirements for banking organizations ("banks") that would implement the final components of the Basel III capital standards. Our comments address certain provisions among the three separate proposals, which include an expanded-risk-based approach ("ERBA") for Category I and II banks and other banks that opt into the approach; modifications to the current "Standardized Approach," which would apply to other banks that are not Category I or II banks and otherwise choose not to opt into the ERBA; and revisions to the capital surcharge framework for U.S. global systemically important bank holding companies ("GSIBs") (collectively, the "Proposals").[2]

Asset managers such as BlackRock rely on banks as a critical source of liquidity and balance sheet capacity that enable them to invest across asset classes and implement investment strategies on behalf of clients. Among other things, banks are counterparties across a broad range of activities—including securities financing transactions, derivatives, and foreign exchange—and provide core services such as market making, repo financing, securities lending, custody, execution, and clearing. Banks also play an important role in providing credit and financing to support funding of investments and large-scale, capital-intensive projects.

We support the Agencies' objectives through the Proposals to enhance the risk sensitivity, consistency, and transparency of the U.S. capital framework, while aligning it more closely with the Basel standards where appropriate. We agree that many of the proposed refinements would strengthen the safety and soundness of banks while also mitigating undue constraints on client-facing activities that are essential to effective financial intermediation. Appropriately calibrating the framework can reinforce the resilience of banks while also preserving their capacity to support financial intermediation, capital formation, and orderly market functioning.

Notwithstanding our support overall, we recommend certain changes that would better calibrate the framework to the nature and level of certain risk exposures, as well as avoid unduly inhibiting the access or availability of certain types of investment products or otherwise increasing their costs. These recommendations include:

- **Risk-Based Capital Requirements Affecting Closed-End Funds**: We recommend that the Agencies (1) revise the proposed treatment of "subordinated exposures" to exclude the preferred stock of registered closed-end funds ("CEFs")—or, at minimum, preferred stock that is not subordinated to other material liabilities of the issuer—and assign CEF preferred shares a risk weight that is similar to the risk weight that would be

[2] Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 Fed. Reg. 14952 (Mar. 27, 2026) ("ERBA Proposal"); Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15332 (Mar. 27, 2026) ("Standardized Approach Proposal"); Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 91 Fed. Reg. 14908 (Mar. 27, 2026) ("GSIB Surcharge Proposal").

assigned to senior corporate exposures; and (2) amend the definition of "financial institution" to exclude business development companies ("BDCs") that elect to be regulated under the Investment Company Act of 1940 ("1940 Act"), or otherwise clarify that investments in BDCs are treated under the applicable equity exposure or investment-fund framework,[3] rather than as investments in the capital of an unconsolidated financial institution ("UFI").

- **Credit Risk Weights for Certain Exposures**: To enhance the risk sensitivity of the Standardized Approach, the Agencies should permit banks using that approach to apply a lower weight to qualifying investment-grade corporate exposures, calibrated closer to the ERBA's 65% risk weight and supported by appropriate internal credit review, oversight, and validation requirements. We also recommend that the Agencies adopt an 80% risk weight for high-quality project finance exposures in the operational phase, consistent with the Basel standards, to better reflect the lower risk profile of robust, cash-flow-generating infrastructure projects and support prudent bank financing of critical economic sectors.
- **Supervisory Risk Weight for Regulated Financial Entities under the Capital Requirements for Credit Valuation Adjustment (CVA) Risk**: We recommend that the Agencies establish, for purposes of the credit valuation adjustment ("CVA") supervisory risk weights, a separate sub-category subject to a lower risk weight for regulated funds subject to SEC Rule 18f-4,[4] including registered investment companies ("RICs") and BDCs, to reflect the comprehensive derivatives regulation that applies to them, leverage limits, risk management requirements, and lower counterparty credit spread risk relative to other financial sector counterparties.
- **Effect of Applying GSIB Surcharge to Exchange Traded Funds**: We urge the Board to exclude exchange-traded funds ("ETFs") from the definition of "financial institution" for purposes of the interconnectedness indicators—or at minimum, exclude bond ETFs—to avoid overstating systemic interconnectedness, departing from Basel standards, and discouraging critical bank intermediation in ETF markets.

We discuss these recommendations in further detail below.

I. Risk-Based Capital Requirements Affecting Closed-End Funds

BlackRock offers two recommendations to improve the proposed capital framework's risk sensitivity to CEFs, which are regulated investment vehicles that provide investors with access to diversified strategies, enhanced income opportunities, and exposures across different markets. As discussed further below, certain aspects of the Proposals would lead to capital treatment of CEF-related exposures that does not adequately reflect the economic substance of the exposure nor the regulatory safeguards that exist. Specifically, we recommend that the Agencies revise the proposed treatment of CEF preferred shares under the

[3] *See infra* note 17.

[4] 17 C.F.R § 270.18f-4.

definition of "subordinated exposure" and clarify the treatment of BDCs under the current regulatory capital deduction requirements.

A. Background on Closed-End Funds

CEFs are growing as an investment option for investors that seek enhanced income and portfolio diversification through an SEC-regulated fund product structure. Several types of CEFs exist, including traditional listed CEFs, interval funds, tender offer funds, and BDCs that include both publicly traded and unlisted variants.[5] Similar to other types of regulated funds, they offer investment exposure to equities, municipal and corporate bonds, high-yield credit, as well as alternative assets (*e.g.*, private market assets). These funds also feature active management of those exposures, along with the use of leverage in an efficient and prudent manner. Asset managers typically serve as CEF sponsors, and banks regularly invest in CEF shares on behalf of asset and wealth management, as well as brokerage, clients.[6]

Importantly, CEFs are subject to a comprehensive regulatory framework under the 1940 Act and related SEC rules. This regulatory framework imposes requirements for investor disclosure, limitations on leverage, fund governance and other investor protections. For example, CEFs are subject to portfolio composition and risk management requirements—including requirements relating to diversification classification, investment concentration policies, affiliated transactions, and leverage practices—as well as periodic reporting and public disclosure obligations that promote transparency for investors, and are subject to examination by the SEC.[7] A CEF is also required to maintain sufficient assets to pay off its obligations and safeguard the senior claims of preferred shareholders on the fund's assets.[8]

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[5] CEFs represent a meaningful and growing segment of the registered fund market. As of year-end 2025, ICI reported 816 CEFs with approximately $791 billion in total assets, including $257 billion in traditional CEF assets, $131 billion in interval fund assets, $116 billion in tender offer fund assets, and $286 billion in BDC net assets. *See* ICI, *A Guide to Closed-End Funds* (Apr. 22, 2026), https://www.ici.org/cef/background/bro_g2_ce.

[6] Banks may also hold or distribute these products through advisory channels consistent with their broader investment product platforms.

[7] *See* 15 U.S.C. §§ 80a-5(b), 80a-8(b)(1)–(3), 80a-13(a) (diversification classification and investment-concentration policies); §§ 80a-17(a), (d), 80a-18(a) (affiliated transactions and senior securities), 17 C.F.R. §§ 270.17d-1, 270.18f-4 (joint transactions with affiliates and derivatives/leverage risk management); § 80a-30; 17 C.F.R. §§ 270.30a-1, 270.30b1-9, 270.30e-1, 274.101, 274.128, 274.150 (periodic reporting and public disclosure obligations).

[8] *See* 15 U.S.C. § 80a-18(a). Section 18(a)(1)(A) of the 1940 Act requires that a CEF maintain asset coverage of at least 300% for any senior security representing indebtedness and Section 18(a)(2)(A) requires asset coverage of at least 200% for any senior security that is a stock (*i.e.*, preferred shares). In addition, Section 18(a)(2)(B) restricts a fund's ability to declare dividends or other distributions on common stock unless the applicable asset coverage ratios are maintained after deducting the amount of such distribution. Section 18(a)(2)(C) also provides preferred shareholders with the right, voting as a class, to elect at least two directors at all times, with additional governance protections triggered in the event of prolonged unpaid dividends on the preferred stock. Together, these provisions ensure that a CEF maintains sufficient assets to meet its obligations and provide structural

B. Definition of "Subordinated Exposure"

The ERBA credit risk framework's approach to risk weighting a bank's "subordinated exposures" would increase required capital in a manner that could negatively affect the ability of CEFs and their investors to access appropriately calibrated leverage in a cost-efficient manner via issuing preferred shares. CEFs typically issue such shares to raise additional capital for investment; municipal bond CEFs, which are among the largest category of CEFs, frequently utilize them to enhance their investors' returns on higher-yield bond positions in a stable and efficient manner. Importantly, CEF preferred shares are often structured to be the most senior form of leverage in the fund's capital structure and are issued pursuant to strict limits under the 1940 Act.[9] Under the proposed framework, CEF preferred shares would be considered "subordinated exposures," that include an ". . .an *exposure to preferred stock that is not an equity exposure* [emphasis added]" that receive a 150% risk weight.[10]

The proposed definition and applicable risk weight present significant concerns for CEFs and their investors that the Agencies should address to better align the actual risk of this asset class with similarly situated, and comparable, equity securities. First, higher capital requirements could substantially reduce the demand for these shares among banks and or impose higher issuance costs on CEFs due to the increased costs of holding such shares. In response, CEFs might be incentivized to pursue different means of sourcing capital, including other types of leverage, that may introduce other types of credit risk that the Agencies were, perhaps, intentionally seeking to avoid. Investors—and even the municipalities that depend on municipal bond CEFs for capital—could ultimately bear the cost impacts of these developments, as these higher costs could lead to diminished investment returns that further reduce demand.

Second, we also emphasize that the proposed approach would exacerbate the inferior risk weight treatment that a senior claim on the CEF (*i.e.*, the preferred shares) already receives relative to subordinated claims (*i.e.*, common shares of the CEF) based on whether the exposure is an "equity exposure" or not.[11] We do not

safeguards for holders of senior securities.

[9] The 1940 Act generally permits a registered CEF to have only one class of senior security representing indebtedness and one class of senior security that is stock. *See* 15 U.S.C. § 80a-18(c). Preferred stocks issued by CEFs that are considered senior securities under the 1940 Act may feature contractual provisions prohibiting a fund from issuing any debt senior to such shares.

[10] Proposed § __.101. Because CEFs typically issue preferred stock as a financing instrument, those instruments often have contractual periodic payment obligations and, thus, would likely qualify as a "subordinated exposure" under the ERBA. CEFs, however, often have no other debt outstanding; as a result, the preferred stock is functionally equivalent to senior debt in the fund, yet would be subject to punitive capital treatment.

[11] Under the current Standardized Approach, preferred shares issued by CEFs can receive a standard corporate risk weight of 100%. In contrast, common shares of the CEF can be subject to a look-through approach that renders the risk weighting to be a function of the underlying securities, which can often result in a lower risk weight treatment, despite the preferred stock's preference over the common stock with respect to dividends and liquidation. *See* 12 C.F.R. §§ 3.53, 217.53, 324.53; 15 U.S.C. § 80a-18(a)(2)(E) (requiring

believe that this treatment would be consistent with the Agencies' objective of increasing the capital rules' risk sensitivity.

Accordingly, we recommend that the the Agencies explicitly exclude CEF preferred stock from the proposed definition of "subordinated exposure." Alternatively, the Agencies could amend the definition of "subordinated exposure" to exclude any preferred stock that is not subordinated to any other material liabilities of the issuer. Additionally, the Agencies should assign a risk weight to preferred stock issued by CEFs that is similar to the risk weight that would be assigned to senior corporate exposures, given that they may share more similar credit risk profiles.

C. Treatment of BDCs under Regulatory Capital Deduction Requirements

Along with the proposed changes to the capital deduction requirements for mortgage servicing assets,[12] we recommend that the Agencies address the more punitive capital treatment that BDC exposures potentially receive under the capital deduction requirements compared to economically similar exposures to RICs. The capital deduction requirements, as regulatory adjustments to common equity tier 1 capital (CET1), are intended to address, among other things, the systemic risks arising out of the interconnectedness between banks and financial institutions.[13] Among the required deductions, certain investments (including equity investments) of a bank in an "unconsolidated financial institution (UFI)"[14] that exceed specified percentage thresholds of the bank's adjusted CET1 must be deducted from the numerator of its CET1 ratio, resulting in a lower ratio that fosters more adverse capital treatment.[15] If a BDC is treated as a "financial institution,"

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preferred stock issued by a CEF to have priority over other classes as to distributions of assets and payment of dividends under the 1940 Act).

[12] The ERBA and Standardized Approach would remove the threshold-based deduction requirement for mortgage servicing assets ("MSAs") from regulatory capital. *See* ERBA Proposal at 14956; Standardized Approach Proposal at 15335.

[13] Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action, 77 Fed. Reg. 52792, 52820–21 (Aug. 30, 2012).

[14] Under current capital rules, "financial institution" includes, among other entities, a company in which the bank has a specified equity ownership interest and is predominantly engaged in specified financial activities, including "asset management activities," but excluding SEC-registered investment companies and foreign equivalents. 12 C.F.R. §§ 3.2, 217.2. 324.2.

[15] For Advanced Approaches banks, a "significant investment in the capital of [a UFI]" generally means an investment where the banking organization owns more than 10% of the issued and outstanding common stock of the UFI; a "non-significant investment" is an investment where the banking organization owns 10% or less. Non-significant UFI investments are subject to an aggregate 10% CET1 deduction threshold, while significant investments in UFI common stock are subject to an individual 10% CET1 deduction threshold and a related aggregate 15% CET1 deduction threshold framework. Significant investments not in the form of common stock are deducted under the corresponding deduction approach. Amounts above the applicable thresholds are deducted from the relevant capital component, including CET1 for common stock, while amounts not

then a bank's investment in BDC shares may be treated as an investment in the capital of a UFI and subject to the deduction framework. The definition of financial institution, however, excludes RICs and foreign equivalents, whose underlying risks the Agencies believe are captured elsewhere in the capital framework, thereby avoiding the need for such capital treatment.[16]

The difference in treatment between BDCs and RICs under the capital deduction framework is not warranted, given that it is based largely on a fund's registration status under the 1940 Act and not the nature of the fund vehicle itself. While BDCs technically are not required to register as RICs, they are otherwise regulated by the SEC in a manner similar to RICs in important respects, such as disclosure obligations, leverage and asset coverage limits, custody rules, and governance constraints. Therefore, designating BDCs as a "financial institution" disadvantages them relative to RICs for reasons unrelated to the credit quality, market risk, diversification, transparency, or leverage profile of the particular exposure. We believe this outcome is inconsistent with the Agencies' overarching objective of establishing a more risk-sensitive capital framework.

Accordingly, we recommend that the Agencies clarify that a bank's equity investment in a BDC—under both the ERBA and Standardized Approach—be accounted for via a risk weight determined under the applicable equity exposure or investment fund framework,[17] rather than as an investment in the capital of a UFI. Alternatively, the Agencies could address this issue by amending the definition of "financial institution" to explicitly exclude BDCs that have elected to be regulated under the 1940 Act. This clarification would align the treatment of BDCs more

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deducted are included in risk-weighted assets and may be subject to elevated risk-weight treatment. *See* 12 C.F.R. §§ 3.2, 3.22(c)(5)–(6), (d)(2), 217.2, 217.22(c)(5)–(6), (d)(2), 324.2, 324.22(c)(5)–(6), (d)(2). For non-Advanced Approaches banks, the current rule applies a different 25% threshold for investments in the capital of UFIs. *See* 12 C.F.R. §§ 3.22(c)(4), 217.22(c)(4), 324.22(c)(4). We note that the Proposals would replace references to Advanced Approaches banks with references to banks subject to the ERBA, reflecting the proposed replacement of the existing Advanced Approaches framework for Category I and II banks.

[16] The Agencies explain in the 2013 Basel III final rule that RICs would be excluded from the definition of "financial institution" because such funds create systemic interconnectedness risk largely through their investments in the capital of financial institutions. The Agencies further explain that RICs are excluded from the definition, any holdings of financial institution capital instruments held indirectly through investment funds remain subject to deduction from capital via a look-through approach. *See* Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule, 78 Fed. Reg. 62018, 62063 (Oct. 11, 2013) ("2013 Basel III Final Rule").

[17] Under the current Standardized Approach, equity exposures that are not equity exposures to investment funds are risk-weighted under the simple risk-weight approach, while equity exposures to investment funds are risk-weighted under the investment-fund look-through framework. *See* 12 C.F.R. §§ 3.51(a)(1), 3.52, 3.53; 217.51(a)(1), 217.52, 217.53; 324.51(a)(1), 324.52, 324.53. The ERBA proposal would generally preserve this treatment. *See* ERBA Proposal at 10005–08, 15186–88.

closely with the treatment of RICs and would avoid imposing UFI deduction treatment based solely on a technical distinction in SEC registration status.[18]

II. Risk Weight Treatment of Corporate Exposures

BlackRock offers two recommendations below to improve the proposed capital framework's risk sensitivity and alignment with the current Basel standards for certain corporate exposures under the ERBA and the Standardized Approach. Specifically, we recommend (1) aligning with the proposed 95% risk weight under the Standarized Approach for exposures to "investment grade" companies more closely to the proposed 65% risk weight under the ERBA; and (2) adopting the 80% risk weight for "high quality" operational project finance exposures under the Basel standard.

A. Investment Grade Corporate Exposures under the Standardized Approach Framework

BlackRock supports the proposed 65% risk weight for "investment grade" corporate exposures under the ERBA credit risk framework and further recommends that the Agencies also allow banks that follow the proposed Standardized Approach to apply a similar risk weight for similar exposures based on certain qualifying criteria and/or requirements.

As proposed, banks following the ERBA framework would be permitted to assign the lower risk weight to corporate exposures that a bank detemines are of investment grade quality, based on internal credit risk rating systems and ongoing oversight and validation requirements. Banks following the Standardized Approach, however, would be required to apply a 95% general corporate risk weight that would apply to both investment grade and non-investment grade exposures. The Agencies explain that the higher risk weight is intended to align the Standardized Approach's simpler and less operationally burdensome framework than the ERBA, which would impose more complex and operationally burdensome requirements to make an investment grade determination.[19]

While we recognize the Agencies' goal of tailoring the capital frameworks for banks based on their size and complexity, a bank that chooses to follow the Standardized Approach should also be able to apply a risk weight to corporate exposures based on its own investment grade determinations. Allowing this option would promote greater risk sensitivity—a stated goal of the Proposals—by focusing more precisely on the nature and risk profile of the corporate asset while still accounting for the size and sophistication of the banks that do not adopt the ERBA.[20] To determine this risk weight, we suggest starting with the 65% risk weight

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[18] Similar to RICs, systemic-interconnectedness concerns arising from a BDC's holdings could be addressed through the existing look-through treatment for indirect investments in capital instruments of UFIs. *See* 12 C.F.R. §§ 3.2, 217.2, 324.2 (definitions of "indirect exposure" and "investment in the capital of [a UFI]"); §§ 3.22(c), (h), 217.22(c), (h), 324.22(c), (h) (requiring deductions for certain investments in the capital of UFIs and specifying the net-long-position calculation for indirect exposures through investment funds).

[19] Standardized Approach Proposal at 15341-42.

[20] Under the ERBA Proposal, a bank that is otherwise subject to the Standardized Approach

under the ERBA—which reflects the applicable Basel standard—plus an incremental amount that appropriately reflects operational risk otherwise not separately accounted for under the Standardized Approach.[21]

We understand that banks today are required to have internal capabilities to make similar investment grade determinations in other contexts,[22] including under the Standardized Approach.[23] Accordingly, it would be appropriately tailored and not unduly burdensome for the Agencies to permit banks subject to the Standardized Approach to apply differential risk weights to investment grade and

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can elect to apply the ERBA, provided it does so in its entirety. ERBA Proposal at 14957. As the Agencies have stated, the purpose of the proposed revisions to Standardized Approach is to "improve risk sensitivity while generally retaining the simplicity of the current framework." Standardized Approach Proposal at 15334. While a non-Category I or Category II bank could avail itself of a 65% risk weight by electing to follow the ERBA, such a bank would be subject to the rest of the framework in a way that would contradict the Agencies' objectives of maintaining tailored approaches for banks based on their size and complexity.

[21] We note that the Standardized Approach does not include a separate operational-risk capital requirement. In determining the proposed 95% risk weight under the Standardized Approach, the Agencies utilized ERBA data that showed an 85% weighted-average credit-risk weight for corporate exposures, with an approximate 10% add-on to address operational risk. *Id.* We highlight, however, that the 85% risk weight is derived from an portfolio-weighted estimate based on special-collection data of items that re-risk-weighted with the ERBA corporate risk weights of 65% (investment grade exposures) or 100% (other corporate exposures). That data, we note, may have included both investment grade and non-investment grade corporate exposures, thereby making it not necessarily suitable as the basis for calculating the appropriate risk weight for investment grade corporate exposures under the Standardized Approach.

[22] Standardized Approach firms already must make investment grade determinations under the capital rules, following changes to comply with Sec. 939A of the Dodd-Frank Act, which mandated that the Agencies remove rule references to external credit ratings. *See* Pub. L. No. 111-203, 124 Stat. 1376, 1887 (2010); *see also* 2013 Basel III Final Rule at 62104 n.166, 62140. For example, the capital rules define "investment grade" and define "eligible guarantor" to include certain entities that have issued and outstanding unsecured debt securities without credit enhancement that are investment grade. 12 C.F.R. §§ 3.2, 217.2, 324.2. The rules then permit banks to recognize eligible guarantees and eligible credit derivatives under the substitution approach, allowing a bank to substitute the risk weight of the eligible guarantor or credit derivative protection provider for the risk weight otherwise applicable to the exposure. *Id.* at §§ 3.36(a), (c), 217.36(a), (c), 324.36(a), (c). Thus, to apply the eligible-guarantee framework, banks must already be able to determine whether a guarantor's unsecured debt securities are investment grade. *See also* 12 C.F.R. §§ 3.2, 217.2, 324.2 (defining "financial collateral" to include long-term debt securities and short-term debt instruments that are investment grade); §§ 3.37(a), (c)(1), (c)(4)(ii)–(iii), 217.37(a), (c)(1), (c)(4)(ii)–(iii), 324.37(a), (c)(1), (c)(4)(ii)–(iii) (permitting use of the collateral haircut approach for repo-style transactions and similar transactions and, for institutions approved to use their own internal estimates of haircuts, permitting category-level haircuts for investment-grade debt securities while requiring security-specific haircuts for non-investment-grade debt securities and equity securities).

[23] Standardized Approach Proposal at 15345 (allowing a bank to recognize eligible guarantees only where the guarantor meets an investment grade standard based bank processes to determine whether a guarantor can meet its financial commitments).

non-investment grade corporate exposures, subject to similar operational requirements to those proposed under the ERBA that set forth mandatory internal processes and controls, ongoing oversight, and periodic validation for non-ERBA banks that elect to apply the preferential investment grade risk weight approach.[24]

B. "High-Quality" Project Finance Exposures in Operational Phase

Consistent with the proposed adoption of the Basel standard's respective risk weights for project finance exposures that are in operational and pre-operational phase, we recommend that the Agencies also adopt the additional 80% risk weight category for operational exposures that are "high-quality." Under the ERBA framework, projects in the "operational phase" would be subject to a 100% risk weight,[25] while projects in a "pre-operational phase" would be subject to a higher 130% risk weight based on higher uncertainty about project viability at an earlier stage.[26] In contrast, the Standardized Approach would generally continue to treat project finance exposures as corporate exposures, albeit with a reduction in the current risk weight from 100% to 95%.[27] Notably the Agencies do not propose under either risk framework to adopt the Basel standard's separate 80% risk weight category for operational projects that are "high-quality,"[28] which means an exposure to a project finance entity that is able to meet financial commitments in a timely manner, with that ability assessed to be robust even under adverse economic and business conditions.

We recommend that the Agencies adopt the 80% risk weight category for high-quality operational project finance exposures, which represent a critical source of funding for vital economic sectors such as energy, transportation,

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[24] Based on these additional operational requirements, we recommend that the preferential risk weight approach for investment grade corporate exposures be optional under the Standardized Approach. Firms that do not elect to apply this approach would instead apply the 95% risk weight approach proposed under the Standardized Approach to all investment grade and non-investment grade corporate exposures.

[25] The Agencies define a "project finance operational phase exposure" as a project finance exposure for which the project has positive net cash flow sufficient to support debt service, project expenses, and remaining contractual obligations, in accordance with the banking organization's applicable loan underwriting criteria for permanent financings, and for which the project's outstanding long-term debt is declining. Proposed § __.101.

[26] The Agencies explain the view that a pre-operational phase presents increased uncertainty that the project will be completed in a timely and cost-effective manner and produce expected revenue for cash flow to repay creditors. This pre-operational phase would the period between the bank loan's origination and the time at which the bank believes that the project has entered an operational phase. Some of the factors that the Agencies believe present a material risk include uncertainties around project completion, cost, timing, market conditions, supply disruptions, expected revenue generation, and debt repayment. ERBA Proposal at 14976.

[27] Standardized Approach Proposal at 15342.

[28] Basel Committee on Banking Supervision, *Basel III: Finalising Post-Crisis Reforms* at 9 prgh. 47 n.28 (Dec. 2017) (specifying that "[p]roject finance exposures in the operational phase which are deemed to be high quality, as described in paragraph 48, will be risk weighted at 80%.").

utilities, and digital infrastructure.[29] Project financing structures typically involve one or more sponsors who act as investors, alongside a syndicate of banks that provide loans that fund a majority of the project. For banks subject to the U.S. supervisory framework, this omission could result in higher lending costs relative to banks regulated in other jurisdictions that have adopted the separate risk weight.[30] Such higher costs, in turn may increase borrowing costs for project sponsors or reduce the availability of financing, which ultimately would affect potential end users and other beneficiaries of important U.S. infrastructure projects. We also note that high-quality infrastructure project finance has historically exhibited lower default rates and higher recovery rates than comparable corporate debt, which supports a lower risk weight.[31]

To support a separate risk weight for high-quality exposures, we recommend adopting the relevant requirements under the Basel standard for identifying high-quality exposures and ensuring that banks involved in such projects have adequate credit-risk protections. These requirements include restrictions on the project entity's ability to take adverse actions to creditors, mandatory sufficient reserve funds or other financial arrangements to cover contingency funding and working capital needs, and contractual protections for creditors in the event of default.[32] This approach supports a balanced approach that would support prudent bank participation in financing critical U.S. infrastructure while incorporating an appropriately risk-sensitive measure under the credit risk framework.

III. Supervisory Risk Weights for Regulated Financial Entities Under Credit Valuation Adjustment Framework

We support a more tailored approach to applying the CVA supervisory risk weights with respect to financial sector counterparties. The ERBA would impose capital charges on banks against potential losses that arise from changes in the CVA for their OTC derivatives counterparties. The CVA framework would apply supervisory risk weights by counterparty sector and credit quality, including a "financials" sector bucket set at 5.0% for investment grade and 12% for speculative

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[29] We estimate that $10 trillion of U.S. infrastructure investment is needed by 2033. *See* BlackRock, *Building America: Investing in Infrastructure and the Workforce* 3 (Mar. 2026), https://www.blackrock.com/corporate/literature/whitepaper/investing-in-infrastructure-and-workforce.pdf.

[30] We note that other jurisdictions have adopted the Basel standard's 80% risk-weight treatment for high-quality project finance exposures in the operational phase. *See* PRA, PS9/24 – Implementation of the Basel 3.1 standards near-final part 2, prghs. 2.121–2.124 (Sept. 12, 2024), finalized by PRA, PS1/26 – Implementation of Basel 3.1: Final rules, prghs. 1.23, 2.1 (Jan. 20, 2026); Regulation (EU) 2024/1623, art. 1(52), 2024 O.J. (L 2024/1623) (inserting CRR art. 122a(3)(c)(ii)); HKMA, Questions and Answers on Banking (Capital) Rules in respect of Credit Risk Framework, ch. III, Q41–Q50 (Dec. 13, 2024).

[31] *See* Brookfield, *The Opportunity in Infrastructure Debt,* https://publicsecurities.brookfield.com/sites/brookfield-psg-v3/files/brookfield-psg/insights/the-opportunity-in-infrastructure-debt.pdf.

[32] Basel Committee on Banking Supervision, *Basel III: Finalising post-crisis reforms* at 12 prgh. 48 (Dec. 2017), https://www.bis.org/bcbs/publ/d424.pdf.

or sub-speculative grade counterparties.[33] As proposed, this sector bucket encompasses a broad range of entities, including banks, broker-dealers, RICs, BDCs, pension funds, hedge funds, and other financial entities. The Agencies, however, request comment on whether separate, lower supervisory risk weights within this sector bucket should be established for certain regulated financial entities whose risk profiles differ materially from those of other financial entities.[34]

As proposed, a uniform risk weight would not account for meaningful differences between funds and other entities with respect to their risk profiles, regulatory oversight, and leverage constraints, all of which should inform the capital requirements for CVA risk. Therefore, we recommend lower supervisory risk weights to funds whose use of derivatives is regulated under SEC Rule 18f-4 of the 1940 Act.[35] Rule 18f-4, which is intended to minimize the risks of fund default associated with the use of derivatives, generally applies to registered open-end mutual funds (other than money market funds), ETFs, registered CEFs, and companies that have elected to be regulated as BDCs under the 1940 Act.[36] The rule establishes a comprehensive, standardized framework governing the derivatives activities of covered funds, including VaR-based leverage limits,[37] mandatory derivatives risk management program,[38] independent oversight by a risk manager with additional oversight by a RIC's board of directors,[39] and regulatory

[33] Table 1 to proposed § __.222 and Table 3 to proposed § __.225 specify that financial-sector counterparties would receive a 5.0% risk weight for investment-grade names and a 12.0% risk weight for speculative- or sub-speculative-grade names. *See* ERBA Proposal at 15085, 15262.

[34] The Agencies acknowledge that regulated financial entities may have differences that "significantly affect CVA risk," potentially justifying differentiated risk weights. *Id.* at 15085.

[35] We would support assigning supervisory risk weights at the lower end of the range specified by the Agencies (*i.e.*, 3% for investment grade and 8.5% for speculative or sub-speculative) for these regulated funds. *Id.* at 15086.

[36] Although BDCs are not registered as RICs, a company that elects BDC status becomes subject to the BDC provisions of the 1940 Act, and Section 61 applies Section 18's senior-securities restrictions to BDCs to the same extent as registered CEFs, subject to specified exceptions. Rule 18f-4, in turn, expressly includes BDCs within its definition of "fund" and permits into derivatives transactions notwithstanding Sections 18 and 61 if they comply with the rule's conditions. 15 U.S.C. §§ 80a-6(f), 80a-53(a)–(b), 80a-60(a); 17 C.F.R. § 270.18f-4(a)-(b).

[37] Rule 18f-4 generally requires a fund's portfolio VaR not to exceed 200% of its designated reference portfolio's VaR under the relative VaR test, or 20% of net assets under the absolute VaR test, imposing an outer limit on leverage risk. *See* 17 C.F.R. § 270.18f-4(a), (c)(2).

[38] Rule 18f-4 requires a fund to maintain a derivatives risk management program reasonably designed to manage "derivatives risks," including leverage, market, counterparty, liquidity, operational, and legal risks, and to include risk identification and assessment, stress testing, and back testing. 17 C.F.R. § 270.18f-4(a), (c)(1)(i), (iii)–(iv).

[39] Rule 18f-4 requires the fund's board, including a majority of directors who are not interested persons, to approve the designation of the derivatives risk manager, who must administer the derivatives risk management program. The derivatives risk manager must report to the board on the program's implementation and effectiveness before or at

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reporting of derivatives exposures.[40] These requirements, which apply in tandem with other existing 1940 Act requirements,[41] ensure that funds' derivatives activities are appropriately limited, transparent, and subject to regular oversight.

Given the robust regulatory protections to which regulated funds are subject, we recommend that the Agencies establish a separate supervisory risk weight sub-category for Rule 18f-4 funds, calibrated at the lower end of the proposed range, to align the CVA risk capital requirement with the actual risk profile of these comprehensively regulated counterparties.

IV. Treatment of ETFs under the GSIB Surcharge Framework

BlackRock urges the Board to exclude ETFs, or at a minimum, bond ETFs, from the "financial institution" definition in the intra-financial indicators under the proposed amendments to the GSIB surcharge framework. The Board's stated objective in the proposal is to better align surcharges with systemic risk.[42] Including ETFs in the interconnectedness indicators, however, would undermine this objective by treating pass-through investment vehicles—which generally lack balance-sheet leverage, credit intermediation, and runnable liabilities—as sources of counterparty-driven systemic stress. Under the current FR Y-15 reporting form, reporting entities are required to report holdings of securities issued by other "financial institutions," which include depository institutions, bank holding companies, securities brokers and dealers, insurance companies, mutual funds,[43] hedge funds, pension funds, investment banks, and CCPs. However, the FR Y-15 explicitly excludes certain assets, including bond ETFs. Under the proposal, the Board would remove this exclusion and expand the "financial institution" definition to explicitly include additional types of "asset management entities,"[44] including

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implementation and at least annually thereafter, and must inform the board, as appropriate, of material derivatives risks. 17 C.F.R. § 270.18f-4(a), (c)(1)(v)(B), (c)(3)(i)–(ii).

[40] *See* 17 C.F.R. §§ 270.30b1-9, 274.150 (Form N-PORT monthly portfolio holdings reporting); 17 C.F.R. §§ 270.18f-4(c)(7), 270.30b1-10, 274.223 (Form N-RN current reporting for specified VaR-test events); 17 C.F.R. § 274.101 (Form N-CEN annual reporting); SEC, *Use of Derivatives by Registered Investment Companies and Business Development Companies: A Small Entity Compliance Guide* (Feb. 4, 2021) (explaining that the Rule 18f-4 amendments require Form N-PORT reporting of derivatives exposure for limited derivatives users and VaR-related information for applicable funds, Form N-RN reporting of VaR-limit exceedances, and Form N-CEN reporting regarding reliance on Rule 18f-4), https://www.sec.gov/resources-small-businesses/small-business-compliance-guides/use-derivatives-registered-investment-companies-business-development-companies-small-entity.

[41] *See, e.g.*, 15 U.S.C. § 80a-8 (public disclosure requirements), § 80a-17 (restriction on affiliated transactions), § 80a-18 (asset coverage requirements).

[42] GSIB Surcharge Proposal at 14908.

[43] The instructions under Schedule B of the FR Y-15 specify that mutual fund investments include equity, bond, hybrid, and money market funds, and reporting entities must report the entire investment, rather than looking through to the fund's underlying holdings.

[44] Other types of "asset management entities" that the Board proposes to include savings and loan holding companies, private equity funds, asset management companies, and other entities that "engage in similar activities." GSIB Surcharge Proposal at 14924-25.

ETFs. The Board cites several reasons for identifying ETFs as a source of financial sector interconnectedness, including its view that (1) ETFs are subject to similar regulatory requirements as mutual funds under the 1940 Act; (2) ETFs engage in similar activities as mutual funds; (3) no material distinctions exist between ETFs and other asset management entity types in terms of their legal structure; and (4) an ETF's redemption structure, despite differing from that of an open-end mutual fund, can still create financial sector interconnectedness.[45]

The proposed expansion of the "financial institution" definition improperly conflates ETFs with other types of investment funds and investment management entities as a source of financial interconnectedness that can function as a transmission channel for stress. First, we emphasize that this treatment departs from the Basel Committee's approach towards bond ETFs. Specifically, the Committee's GSIB reporting framework continues to exclude bond ETFs from the holdings of securities issued by other financial institutions reported under the interconnectedness indicators.[46] We note that there are other jurisdictions that appear to follow this approach.[47]

ETFs have characteristics that materially distinguish them from other entities that qualify as a "financial institution." ETFs are structurally and legally distinct from the types of bilateral exposures and relatively opaque funding arrangements characteristic of other included entities in the definition. Rather, they are a transparent, highly regulated vehicle under the 1940 Act subject to leverage limits, diversification requirements, daily NAV transparency, and recurring public disclosure obligations.

Further, most ETF trading occurs in the secondary market, where shares are listed on a national securities exchange and traded at market-determined prices. Accordingly, in most instances market participants, including banks, do not purchase or redeem shares directly with the fund or otherwise force sales of underlying assets. At times, banks may act as designated authorized participants and undertake primary market transactions to maintain alignment of an ETF's share price to its NAV via a unique share creation and redemption process; however, these pricing, trading, and redemption structures are governed by Rule 6c-11 of the 1940 Act. Based on the extensive regulatory framework that applies and the dynamics behind how they transact, we believe that ETFs pose fewer concerns to FR Y-15 reporting entities from an intra-financial system perspective. ETFs are not counterparties to the reporting bank, do not engage in credit intermediation, and do not generate runnable liabilities. Including them in the "financial institution" definition would overstate interconnectedness without improving systemic risk capture.

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[45] *Id.*

[46] Basel Committee on Banking Supervision, *Instructions for the end-2025 G-SIB assessment exercise* at 12 (Jan. 20, 2026) (Item 3.c), https://www.bis.org/bcbs/gsib/instr_end25_gsib.pdf.

[47] *See, e.g.,* Bank of England, PRA, Statement of Policy 2/25 at § 1.2 (July 2025) (stating that "[i]n setting its approach, the PRA has followed the [Basel Committee's] G-SIB framework.").

Importantly, the proposed change to the treatment of ETFs under the interconnectedness indicators would impose capital costs on the bank intermediation functions—authorized participant activity and market-making—that support ETF market quality, including price transparency and lower costs for investors. This reduced involvement would impair price discovery and diminish liquidity not only in the ETF market itself but also in the underlying markets for corporate bonds and other fixed income instruments. This treatment would also create competitive asymmetry: US GSIBs would face higher interconnectedness scores for the same ETF holdings than counterparts in other jurisdictions, thereby penalizing US bank intermediation without a corresponding improvement in risk measurement. However, if the Board determines to include certain ETFs in the definition, then it should at minimum maintain the current FR Y-15 exclusion for bond ETFs, consistent with the Basel standard.[48] We note that bond ETFs have consistently demonstrated their resilience, serving as critical price discovery and liquidity tools during periods of market stress—absorbing selling pressure when underlying bond markets were impaired.[49]

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We thank the Agencies for providing BlackRock the opportunity to comment on the Proposals and other rules. Please contact the undersigned if you have any questions or comments regarding BlackRock's views or if we can be of any assistance.

Sincerely,

Benjamin A. Tecmire
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Managing Director, BlackRock

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Global Head of Securities Lending and Financing
Managing Director, BlackRock

[48] One notable example of a bond ETF that should be excluded from the interconnectedness considerations are Treasury ETFs, which hold U.S. government securities and related cash or cash-equivalent instruments. Given that they do not create the type of counterparty-credit exposure the intra-financial system indicators are designed to capture, including them as "financial institutions" would overstate the systemic risk they pose and otherwise impede GSIB participation in one of the most liquid and resilient segments of the fixed-income market.

[49] ICI, *Report of the COVID-19 Market Impact Working Group*, *Experiences of US Exchange-Traded Funds During the COVID-19 Crisis*, (Oct. 2020), https://www.ici.org/pdf/20_rpt_covid2.pdf.