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Reg Cap Recap

A bimonthly update on the Regulatory Capital Relief/Significant Risk Transfer sector

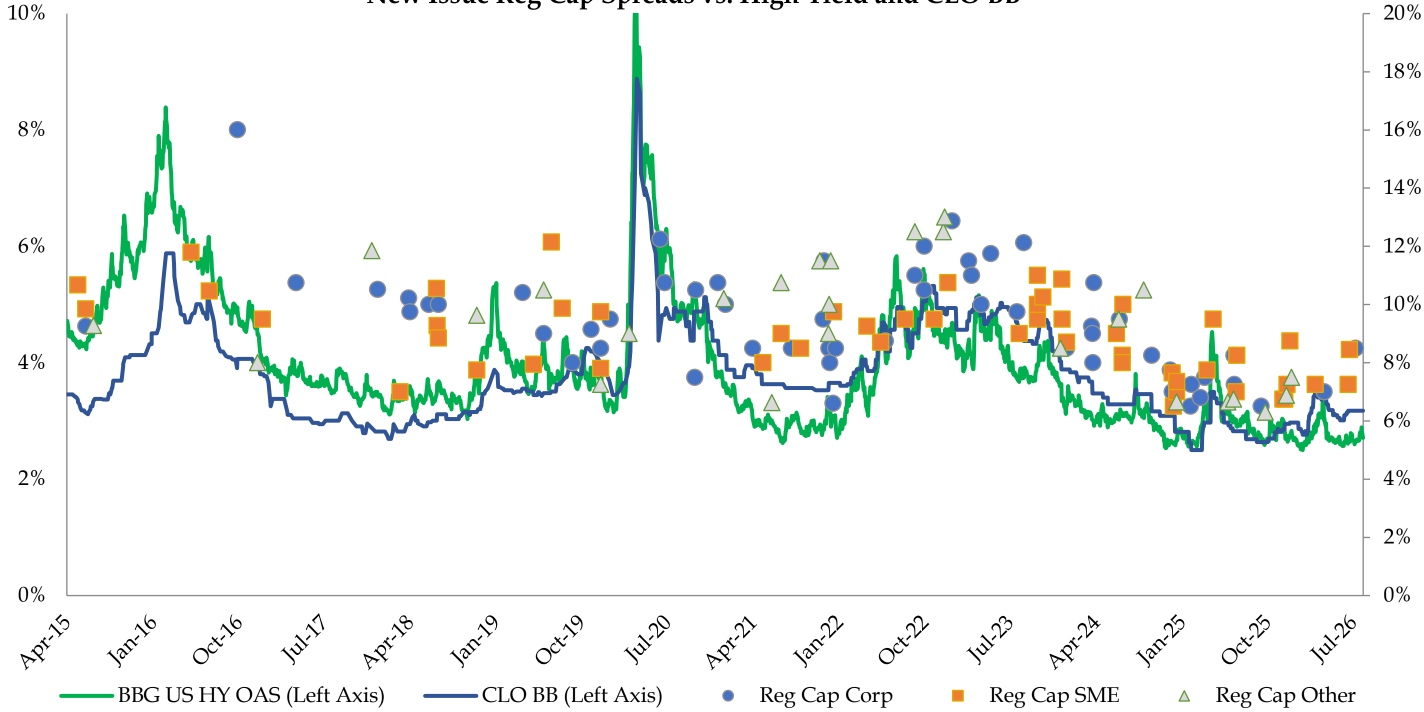
August 4, 2026

SEER CAPITAL

Reg Cap Spread Trends

Recent Reg Cap pricing was in the low-mid 700bps range, while HY spreads widened by 4bps during the month of July.

New Issue Reg Cap Spreads vs. High Yield and CLO BB*



* *Source: Seer Capital Research / Bloomberg. Reflects selected first and second loss tranches but excludes mezzanine and thick (i.e. 0-12.5%) tranches. As of August 1, 2026.*

Recent New Issue Activity

The following is a representative listing of recent new issue activity.

		ASSET			PORTFOLIO SIZE		
Closing Date	Spread (bp) [1]	Type	Jurisdiction [2]	Disclosure [3]	Currency	Amount (bn)	First Loss [4]
Jun-26	725	SME	Spain	No	EUR	4.4	No
May-26	630	Auto	US	No	USD	4.0	No
Apr-26	700	Corporate	US	Yes	USD	6.4	Yes
Mar-26	525	Corporate	US	No	USD	1.5	No
Mar-26	650	Auto	US	No	USD	3.5	No
Nov-25	875	Auto	UK	No	GBP	0.6	No
Nov-25	675	SME	Portugal	No	EUR	2.1	No
Nov-25	675	SME	Spain	No	EUR	2.2	No
Sep-25	630	Auto	US	No	USD	5.0	No
Sep-25	650	Corporate	US	No	USD	5.0	Yes
Jun-25	825	SME	UK	No	GBP	1.5	No
Jun-25	700	SME	Spain	No	EUR	3.9	No
Jun-25	725	Corporate	Global	Yes	USD	6.9	Yes
Jun-25	825	Corporate	Global	No	EUR	9.3	Yes
Jun-25	675	Auto	US	No	USD	2.0	No
May-25	665	Auto	Denmark	No	DKK	5.7	No
Apr-25	950	SME	Germany	No	EUR	2.5	Yes

[1] *Spread to SOFR*
[2] *Asset jurisdiction and issuer jurisdiction may vary*
[3] *Disclosure of obligors in the reference pool of assets by name*
[4] *Indicates whether the Reg Cap issue is in the first loss position*

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Market Commentary

The SRT market has seen a handful of early 3Q pricings and several first-round bid processes for September deals given the summer slowdown. Based on limited data points, investor appetite appears to be strong, after some evidence of softening in the second quarter. Market participants had best enjoy their summer vacations, as issuance volume promises to be extremely heavy from September through the end of the year. The supply stands to be spoken for largely by dedicated SRT investors who continue to raise capital on the back of strong fundamental performance, as well as insurers increasingly looking to deploy capital into SRT using innovative structures.

Europe will continue to drive supply growth, as active issuers remain under pressure to use SRT to optimize capital deployment, while smaller and less active institutions remain under pressure to catch up. The US market is looking forward to the finalization of the long-awaited Basel Endgame. So far, the US market has significantly lagged Europe, as US banks have had less need for capital, and European banks benefit from a clearer regulatory environment. As reported below, US regulators are adopting a more constructive stance towards bank regulation and capital standards, seeking to support bank lending to companies and individuals. Given strong capital position relative to regulatory requirements, US bank SRT issuers are likely to be motivated more by risk transfer, for example on new and fast-growing lending business such as data centers and private credit vehicles, than by capital management. At Seer, we prefer capital-motivated transactions referencing core bank lending to their longstanding business and consumer clients.

Reg Cap News

New Issue News

PKO Signs Synthetic Securitization of Corporate Loan Portfolio (Bloomberg News, aka "BN," 7/23/26)
Poland's PKO Bank has issued a Reg Cap deal (aka Regulatory Capital Relief aka SRT or Synthetic Risk Transfer), transferring a significant portion of the credit risk on a corporate loan portfolio. The transaction includes an 18-month revolving period. The SRT is expected to add about 25 bps to the group's CET1 ratio. This transaction is illustrative of the trend toward SRT adoption in new jurisdictions and among smaller banks.

BMO Completes SRTs Tied to $5 Billion of Corporate Loans (BN, 7/29/26)
Bank of Montreal completed two SRTs covering a combined $5bn of corporate loans. One transaction under its Muskoka program referenced $2.5bn of large corporate loans, while a separate Algonquin deal referenced $2.5bn of mid-market corporate loans.
The Muskoka transaction transferred a first-loss piece equal to ~7% of the portfolio and priced at a spread below 700bps. The Algonquin deal covered more ~6% of its portfolio and priced in the mid-700s. The transactions add BMO to the group of Canadian banks using SRTs to release capital amid robust investor demand. Peers including Toronto-Dominion Bank, Royal Bank of Canada and National Bank of Canada have priced or plan Reg Cap transactions this year.

Deutsche Bank Weighs SRT Tied to $1.7 Billion in German SME Debt (BN, 7/29/26)
Deutsche Bank is discussing an SRT tied to about $1.7bn of loans to German small and medium-sized companies. The transaction would be the first from its new Start platform. The bank is also planning another SRT on large global corporate loans through its well-established Craft program.
Management said it plans to launch the new SRT platform to create lending capacity, while adding that the bank does not want to rely too heavily on the product for capital management. Deutsche recently arranged a renewable-power financing portfolio for Deutsche Kreditbank. Deutsche has been an innovator and leading issuer of SRT since the early 2000s, when members of the Seer team helped establish their program.

Market Chatter: ING Group Reportedly Nears Completion of $10 Billion in Significant Risk Transfer Deals Tied to Data Centers (MT Newswires, 7/29/26)
ING Closes Third Significant Risk Transfer, Vows to Do More (BN, 7/30/26)
ING to Free Up 15–20 Basis Points of Capital with SRTs (BN, 7/30/26)
ING is increasing its use of SRTs to expand lending capacity and expects the transactions to provide 15–20bps of CET1 relief this year. The bank recently completed its third SRT, referencing loans to large German companies, which reduced risk-weighted assets by $1.1bn. ING is also finalizing two SRTs on roughly $10bn of loans. One covers about $6bn of US and European project finance exposure across sectors (including data centers) and is expected to protect about 7% of the portfolio. The other covers 3.5 billion euros of Dutch small and medium-sized business loans and represents about 6% of the reference pool. Management said there is "more to come" as ING continues to use SRTs for capital relief.

SocGen Nears $5 Billion-Linked SRT Including Data Center Debt (BN, 7/30/26)
Societe Generale is finalizing an SRT tied to about $5bn of project finance loans across energy, renewable power and data centers. The deal would transfer a portion of the portfolio's credit risk to investors, freeing capital for new lending or other uses. The transaction follows a recent SocGen SRT covering more than $10.3bn of corporate loans in countries including France and the US, which priced at 675bps over.

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Reg Cap News (continued)

Reg Cap News

Santander Offloads €13.4b of Risk Weighted Assets in 2Q: CFO (BN, 7/22/26)
Santander mobilized €13.4bn of risk-weighted assets in the second quarter through securitizations, asset sales, guarantees and other actions. Cash and synthetic securitizations represented half of the total, asset sales (mostly nonperforming loans) accounted for 37%, and guarantees and other measures made up the remaining 13%. Management expects a similar pace in the second half, with activity likely weighted somewhat toward the fourth quarter. The bank believes it can continue mobilizing at least €35bn–€40bn of assets annually as long as private-credit demand remains strong.

SCI in Focus: Regionals Eye SRT and CRE Relief (SCI, 7/22/26)
The main obstacle to wider SRT use by smaller US banks (less than $100bn of assets) is that current rules do not recognize relief from commercial real estate concentration risk. The top 35 or so banks out of almost 4,500 in the US have assets greater than US$100bn. Only a handful of smaller banks, like NJ's Valley Bank, (US$65bn), Texas Capital (US$33bn) and Merchants Bank of Indiana (US$22bn) have executed Reg Cap deals.
Regional banks are generally well capitalized but often have fewer ways to transfer risk and much heavier CRE exposure (on a percentage basis) than large banks. According to a University of Pennsylvania study, regional banks hold about $1.6tn of CRE exposure. Nearly half of these banks' "CRE concentration exceeds thresholds of potential regulatory concern."
Traditional securitization is often unattractive for these lenders because a true sale would force them to recognize losses. An SRT avoids that and also preserves the assets and the customer relationships. There is currently a regulatory penalty associated with CRE exposure above 300% of capital, which cannot be mitigated by refencing CRE exposures in an SRT. A recent proposal, part of a comment letter to regulators about the re-proposed Basel 3 Endgame, could fix that. Regulators appear open to revisiting guidance, particularly if doing so could bring CRE lending back into the regulated banking system and away from private credit.

Wall Street Supercharges SRTs With Insurer Wraps: Going Private (BN, 7/22/26)
Insurers are increasingly providing guarantees on repackaged SRTs and other private-market products, helping investors obtain cheaper financing and potentially turning junior or mezzanine exposures into instruments that behave more like senior debt. As reported by BN, this developing transaction would use Nationwide protection to facilitate about $300mn of financing from First Abu Dhabi Bank that will be used by us at Seer Capital to buy SRTs.
These structures can make private-market assets more attractive to insurers and pension funds by reducing regulatory capital charges. A rated tranche can require less than 1% capital for a US insurer, compared to as much as 30% for a direct private-credit fund investment. The structure arguably introduces new opportunities as well as some new risks. Insurance wrappers are transforming mezzanine or junior SRT tranches into something more akin to a senior instrument, however a downgrade of the insurer could trigger simultaneous downgrades across wrapped holdings.
Nationwide Mutual Insurance Co. and at least a dozen other insurers offer protection on products including SRT repacks. Nationwide and other insurers, like other investors, employ credit underwriting teams to evaluate and price the risks. The insurance wrappers enable investors to access cheaper debt financing terms to bolster expected returns on their SRT holdings. Market participants are also working on structure that "...adds an insurance sweetener to a repackaging of fund stakes into rated bonds… to be "known as a collateralized fund obligation." This obligation would be backed by stakes in funds that run perpetually. A grade of A2 from Moody's Ratings has been targeted.
Meanwhile researchers at the Bank for International Settlements and the Bank of England have argued that repackaging SRT deals fuels "structural complexity and opacity," that "amplifies contagion if one link fails." Unfortunately, this seems to be a standard reaction to structural innovation, which is a regrettable legacy of the GFC. In our view, broader distribution of risk, like trade, facilitates a more efficient financial system and makes for cheaper and more competitive products for borrowers / consumers.

SCI in Focus: The Biggest Myth in SRT? That There's No Secondary Market (SCI, 7/27/26)
The SRT secondary market is becoming more active as issuance expands, more deals are syndicated and a larger stock of seasoned transactions becomes available. Trading remains mostly bilateral and relatively small, but investors now see regular opportunities to buy and sell positions to meet their needs for "capital rotation, portfolio optimization, and investor entry."
Pricing and underwriting in secondary are also becoming more disciplined, with investors focusing on portfolio performance, documentation, remaining maturity and structural protections. Executed trades are also beginning to provide useful valuation reference points. That said, buy-and-hold behavior still dominates. "We think we should earn a discount of 50 to 100bps of incremental IRR over a new issue because we're providing liquidity in an illiquid market," one investor notes.
"Bilateral execution, limited transparency and the bespoke nature of transactions" continue to hinder the secondary market. Greater standardization, broader participation and more consistent price discovery could deepen the market, particularly if US issuance grows. The secondary market is not yet fully established, but the article argues that the idea that it does not exist at all is a common misconception. One market participant noted that they see bonds offered in secondary almost monthly. Another noted that during market disruption, multi-strat funds often sell what is most liquid and has held its value, which is often their SRTs. During the dramatic market selloff in the early days of the spread of Covid in 2020, the SRT secondary market become more active, and positions changed hands at much more constructive prices than other structured credit instruments such as mezzanine CLOs.

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Reg Cap News (continued)

Barclays Hedges £64b of Assets Via Risk Transfers Vs £54b Q4 (BN, 7/28/26)
Barclays has hedged £64bn of assets through risk transfers, up from £54bn at year-end. Seventeen deals were completed this year hedging £15.8bn of exposure, compared with 10 deals covering £9.6bn last year. The bank also hedged £2bn of other assets through synthetic SRTs and £6bn through cash risk transfers.

European Banks Want a Slice of AI Profits, But Less of the Risk (BN, 7/30/26)
European banks are seeking more revenue from the AI investment boom while seeking to limit the balance-sheet risk. Societe Generale disclosed $8.8bn of data-center infrastructure exposure, about 70% tied to large cloud providers, and is finalizing an SRT on a broader $5bn project-finance portfolio that includes data centers.
Other banks, including BBVA, ING and BNP Paribas, are also exploring or using SRTs to hedge AI-related lending. European lenders have shown willingness to support established sponsors and related industries such as power, grids and construction, but management teams emphasize selectivity as uncertainty grows around the sustainability of AI spending. “We see a lot of demand, but we have to be careful,” BNP Paribas’ Chief Financial Officer said in a recent interview, adding “We’re ready to support it, but we keep our eyes open.” At Seer, we are cautious on the use of SRT to support the growth of new lending products or sectors.

The Dark Arts of Securitisation (FT, 7/31/26)
Securitization and synthetic risk transfer are “useful tool(s)” that typically offer a spread pick-up to similarly rated conventional securities, partly because originating banks share the regulatory-capital benefit with investors. This article argues, however, that “some of the additional yield comes from investors taking poorly understood risks.”
Tranching of deals concentrates losses in equity and mezzanine pieces, creating embedded structural leverage to defaults. For investors whose mandates prevent the use of borrowing to leverage their returns, taking a junior place in the loss waterfall “…offers a means of circumventing restrictions to enhance returns” and is de facto leverage.
Investors also assume correlation risk, recovery-rate risk and rating-migration risk. The analysis warns that ratings may not fully reflect market-implied credit risk in the underlying assets. This may give arrangers an incentive to select loans or bonds that trade poorly relative to their credit ratings. We note that, in SRT, history shows that such adverse selection is not a problem, and in fact referenced assets have outperformed on balance sheet assets, like for like. The European Banking Authority reached this conclusion here:
https://www.eba.europa.eu/sites/default/files/document_library/News%20and%20Press/Press%20Room/Press%20Releases/2020/EBA%20proposes%20Framework%20for%20STS%20Synthetic%20Securitisation/883430/Report%20on%20framework%20for%20STS%20syntetic%20securitisation.pdf, see Figure 23.
Securitization can allocate risk efficiently, but the article claims that investors may underestimate the structural complexity. The Seer team has been working on SRTs and securitizations for at least 30 years, and we have a rigorous process for analyzing each new deal. As far as we are aware most of our competitors have similar (although many are a bit younger…)

Raiffeisen Plans SRTs on Slovak, Czech Personal Loans in 4Q: CFO (BN, 7/31/26)
Austria’s Raiffeisen Bank International plans two additional synthetic risk transfers in the fourth quarter, covering Slovak and Czech personal loans. The transactions are expected to provide about €720mn of gross relief, bringing the total CET1 benefit from this year’s SRT activity, including a second-quarter securitization, to 75bps.

MUFG's Latest Transaction Highlights Banks' Growing Use of SRTs on Financing Provided to Private Credit Firms (SCI, 8/3/26)
MUFG’s seven-year Furry Creek synthetic securitization shows how SRT reference portfolios are expanding beyond direct corporate lending. Unlike most corporate loan SRTs, however, the reference entities in Furry Creek are lenders, rather than operating businesses. The transaction references 26 first-lien facilities to US business development companies and one credit interval fund, with average reference-entity quality around BBB/BBB-, transferring risk on financing provided to private-credit lenders rather than on loans to operating companies.
Fitch used a look-through approach because the ultimate risk depends on the BDCs’ underlying borrowers. It estimated average collateral quality of ~B-/CCC+ and weighed BDC-specific redemption and concentration risks.
BDC-backed SRTs remain a niche segment, but Furry Creek and a 2025 BNP Paribas transaction suggest that private-credit financing is becoming part of the broader expansion in SRT collateral. Meanwhile, corporate loans still account for almost 80% of SRT issuance. At Seer we admire the creativity of MUFG, but we reiterate our preference for SRTs referencing core corporate and consumer lending portfolios.

US Banks Have Room to Use SRTs to Reduce RWA Density (LinkedIn, date not provided)
US banks have substantially higher risk-weighted-asset density than European banks. RWA density is a metric that shows the average risk level of a bank's portfolio. It is simply a bank's total risk-weighted assets (RWA) divided by its total assets (or total exposure). The author claims that “US banking books have a similar level of risk but must use higher risk weights because of the restrictions on modelling and lack of an external ratings-based approach.” Wider use of SRTs could help US banks optimize capital and move their asset density closer to global peers.

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Reg Cap News (continued)

Banking Industry News

Politicians and regulators globally are wrestling to balance management of risk in the financial system with supporting economic growth and avoiding pushing economic activity to unregulated actors. As we highlighted earlier this year here: https://seercap.com/wp-content/uploads/2026/02/If-you-Cant-Beat-Em-Join-Em.pdf, US regulators have recently adopted a more constructive stance toward banks than many of their counterparts. These considerations are front and center now, as the subsequent several articles highlight.

On the Comparison of Capital Requirements for Global Systemically Important Banks (BIS, 7/8/26)

Basel III establishes common minimum capital standards but gives national authorities discretion to impose additional buffers, supervisory add-ons and guidance. Using harmonized data for 29 global systemically important banks across seven jurisdictions from 2014–25, the paper finds meaningful differences in both risk-based and leverage-ratio requirements.

The comparison is complicated by variation in how banks calculate risk-weighted assets, including the permitted use of internal models. The findings also suggest that jurisdictions with less conservative RWA measurement may offset that treatment with higher capital-ratio requirements. Therefore, headline ratios alone do not provide a complete comparison.

International coordination remains important to preserve transparency and avoid fragmentation, the authors argue.

The Fraying Consensus on Bank Capital: Same Basel, Different Accents (IFR, 7/23/26)

The post-2008 international consensus on bank regulation that held for nearly two decades is weakening. Increasingly, countries are adapting Basel rules to their own economic priorities and recent experience. For example, the US has eased leverage requirements for its largest banks, Switzerland is considering much tougher requirements for UBS following the collapse of Credit Suisse, Australia is phasing Additional Tier 1 bonds out of regulatory capital, and the UK is redesigning the balance between minimum leverage requirements and releasable buffers.

The author includes a simplified explanation of the Basel Ill framework that governs bank capital, which has three key elements.

1. The risk-weighted minimum capital requirement whereby each asset is weighted, with riskier assets requiring more capital.
2. The leverage ratio requirement (the regulator's "mistrust backstop"), which a simple constraint on total exposures, essentially in case the risk-weighting models prove to be wrong.
3. Capital buffers; additional capital maintained in normal times so that a bank can absorb losses in times of stress.

The article cites a recent study showing that national regulatory approaches increasingly reflect different attitudes, specifically that "national systems differ over what they fear more: constraining useful activity too early or allowing financial risk to build too far." Very stringent, complex rules may reduce measured bank risk, they argue, but they can also constrain productive lending or move activity into less transparent nonbanks (i.e. private credit), which are even less regulated. A recent European Commission report recognized the need to change direction, calling for a shift from the current "often highly risk-averse approach." It remains unclear whether regulators can deliver reform and/or whether banks will respond with more lending and investment.

UK Lenders Accuse Bank of England of Ignoring Wall Street's Capital Edge (FT, 7/27/26)

Large UK banks argue that the Bank of England's comparison of British and US capital requirements understates Wall Street's advantage, particularly in the treatment of software investments. A bank-sponsored study found average capital requirements of 11.8% for HSBC, Standard Chartered and Barclays, versus 10.6% for six large US banks.

After adjusting for differences in risk assessment and software intangibles, the study estimated that UK requirements were 1.3 percentage points higher. Planned US deregulation could widen the gap to 1.9 points, equivalent to £22.5bn of CET1 capital or about £750bn of lending capacity. UK banks must fully deduct software assets from capital, while US banks apply a risk weight and EU banks can phase in deductions.

The UK's Prudential Regulation Authority is resisting a change because it believes software has little recoverable value in a crisis and therefore cannot absorb losses effectively. UK lenders counter that aligning the rules internationally would support technology investment and economic growth.

Bank Rulemakers Are Creating a Crisis of Their Own (Bloomberg Opinion, 8/3/26)

European and UK bank-capital rules remain rooted in the post-2008 crisis environment and, in the author's view, now constrain lending, investment and competitiveness. In essence, "Generals lose their current wars by fighting the last one." Although Brussels and the Bank of England have begun reviewing requirements, European banks still face a disadvantage relative to US firms, including tougher treatment of internal technology investment and higher overall capital demands.

The article argues that Europe's problem is too little long-term productive investment rather than excessive credit growth. Banks conserving capital are less likely to originate the financing needed for growth and strategic industries, while regulators have little incentive to accept more risk without explicit political direction.

The author calls for a more urgent rethink that permits additional risk-taking (without returning to pre-crisis excesses - a tricky needle to thread, perhaps). Incremental concessions may help, but jurisdictions with the world's toughest capital requirements will continue to struggle against better-positioned US competitors unless policymakers align regulation more closely with current economic need, so the author argues.

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Reg Cap News (continued)

UniCredit 2Q Raises EPS Floor, Commerzbank to Add More: BI Focus (Bloomberg Intelligence, 7/27/26)
UniCredit's second-quarter results strengthened the case for sustained double-digit EPS growth through 2028. Bloomberg Intelligence estimates standalone 2028 EPS above €9.70, supported by stronger fees and insurance, a higher core-revenue base, structural hedges and continued cost discipline. Consolidating Commerzbank could push 2028 EPS above €10 if UniCredit realizes more than €1bn of synergies within three years. Loan growth, improving spreads and structural hedges support net interest income, while efficiency and risk-weighted-asset optimization could raise return on tangible equity above 23% in 2028. UniCredit is a regular issuer of SRT which helps support additional lending, shareholder distributions, and acquisitions.

US CLO Defaults to Remain the Exception, Not the New Norm (Bloomberg Intelligence, 7/27/26)
Two recent CLO tranche defaults in the US and Europe are anomalous and do not point to broad structural deterioration, this author argues. The two defaulted tranches had long histories of covenant failures and were deeply subordinated.
Senior overcollateralization ("OC") covenant breaches remain extremely rare, and only 2.5% of US deals have a junior OC breach. Only 1% are undercollateralized. US senior and junior OC cushions also remain stronger than European levels, although US interest-coverage cushions are considerably weaker. Senior OC cushions in US CLOs at the end of April reached nearly 13.5%, a full 1.5 percentage points higher than those in Europe. At 3.8%, US junior cushions modestly exceeded European cushions of 3.6%.
There are some areas to watch. US CLO exposure to fixed-rate assets and unsecured second-lien debt increased, increasing both mismatch risk and recovery risk. Even so, distressed-bucket usage continued to decline, managers were not rushing to sell stressed collateral, and US portfolios retained both better average credit quality and greater diversity than European portfolios.

AT1 Buyers Are "Far Too Complacent" to Risks, Man Group Says (BN, 7/28/26)
The author argues that investors are underestimating the risks in Additional Tier 1 bank bonds as demand for yield pushes spreads to unusually tight levels. For example, "some banks have taken advantage of high investor demand for AT1s to fix their cost of capital for double the usual term, meaning the bond's sensitivity to shifts in interest rates is greater." In addition, documentation within the sector is inconsistent, and the risk of maturity extension is rising. European bank AT1 spreads recently reached a record low, while US preferred-share pricing has raised similar concerns about whether investors are being adequately compensated. The AT1 market is "for the discerning, not the desperate" they write. We highlight the attractiveness of SRTs, which expose investors to losses only on a specified portfolio of loans, relative to AT1s, which expose investors to banks' entire loan portfolios as well as other risks which may be ill defined / poorly understood, as was shown when Credit Suisse failed.

UBS and European Peers Left in Wake of Wall Street Trading Boom (BN, 7/29/26)
European investment banks posted strong second-quarter trading results, but investors increasingly measure them against record Wall Street performance rather than against regional peers. In that regard, they are falling short. UBS equities revenue rose 53% to more than $2.3bn for a second consecutive quarter, while Barclays' saw a 45% increase in equities trading However, "many Wall Street banks, including JPMorgan Chase & Co. and Goldman Sachs Group Inc., said they had a record three months from April through June," thanks to volatility across equity markets. Goldman Sachs equities trading revenue was up 72%. While Deutsche Bank's fixed-income trading revenue rose 16% to $3bn, exceeding the 13% average increase among US rivals, the comparison to Wall Street underscores the higher bar European banks now face.

I Helped Bring in US Bank Stress Tests. Now It Is Time to Drop Them (FT, 7/31/26)
Former FDIC Chair Sheila Bair argues that US bank stress tests, useful during the financial crisis, have since evolved into a time-consuming annual process that may in fact give a misleading picture of bank strength. Bair writes that the "…tests should be a collaborative learning exercise for banks and their regulators. However, since 2020, results have been directly tied to a bank's capital requirements, significantly increasing their importance to a bank's bottom line. This, plus the public nature of the tests, has made it an increasingly adversarial process." This in turn has intensified industry lobbying, leading to changes that have reduced the tests' rigor. Moreover, detailed public disclosures about the tests have undermined the testing as well.
"This year's test found that a 10 per cent unemployment rate, 39 per cent drop in commercial real estate prices, and 30 per cent decline in home prices would lead to only a 1.6 percentage point decline in the aggregate capital ratio for the banks, the lowest ever under the current framework." Bair finds that inadequate, and we imagine most readers would agree.
She also questions why scenarios focus on a deflationary credit crunch, though today's risk is more likely to concern "high rates, persistent inflation and a weakening economy." Meanwhile "other risks — system-wide cyber-attacks; AI-generated fraud; algorithmic herding; private credit turmoil; Treasury market disruptions — are not included in test scenarios" at all.
Bair recommends folding stress testing into a dynamic supervisory process using multiple current scenarios. She also recommends separating it from capital-setting. She would apply a strong, uniform stress capital buffer to systemic banks. The current situation is worse than simply ineffective, because "the tests also dilute market discipline and reinforce the notion of too-big-to-fail."

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August 4, 2026

Reg Cap News (continued)

Italy Mulls Monte Paschi Stake Options Ahead of Intesa Takeover (BN, 8/3/26)
Italy is considering selling its remaining 4.9% stake in Monte Paschi to institutional investors, potentially ending the government's involvement following the bank's bailout and nationalization. The possible sale comes as Intesa pursues a takeover of Monte Paschi currently valued at roughly €35bn. Banco BPM withdrew a competing merger proposal. Intesa plans to seek approval for the related capital increase in September, submit the offer to Monte Paschi shareholders in the fourth quarter and complete the transaction by year-end. Monte Paschi is exploring alternatives, while Credit Agricole has indicated a preference for combining Banco BPM with its own Italian operations. Analysts see room for Intesa to improve its offer but consider a competing bid for Banco BPM unlikely.

Spanish Banks' Strong Loan Growth, Earnings Offset CET1 Squeeze (Bloomberg Intelligence, 8/3/26)
Spanish banks hold about €58bn of capital above regulatory requirements, but that cushion may narrow in the second half because of shareholder distributions, risk-weighted-asset growth and higher countercyclical buffers. Strong earnings, cost efficiency, loan growth and capital relief from SRTs should absorb much of the pressure. Santander's position weakened following its TSB acquisition, while BBVA's improved on profitability and SRT benefits.
Asset quality remains healthy, with the average Stage 3 loan ratio falling 24 basis points year over year to 2.3%. BBVA and Santander face more potential loan-loss pressure from emerging-market exposures, but the report views that mainly as earnings issue rather than a near-term asset-quality problem.
Loan growth accelerated to 8% in the second quarter, while the average loan-to-deposit ratio remained a conservative 91%. Liquidity is solid, deposit inflows are supportive and mortgage growth should help sustain lending momentum in the second half.

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Seer Capital Management LP is a diversified, credit-focused investment firm founded by Phil Weingord in 2008 that primarily invests in structured credit and loans. We allocate capital opportunistically across all major asset classes within structured credit in the U.S. and Europe, including: bank regulatory capital risk transfer (SRT), residential and commercial mortgages, syndicated and SME loans, and a variety of consumer loans (personal, auto, credit card, student, housing). These investments are executed through active trading in both legacy and new issue securitizations, purchase and securitization of whole loans, and direct lending joint ventures.

Seer Capital believes it is well positioned to capitalize on opportunities in structured credit as a result of our highly experienced senior investment team, which has on average more than two decades of experience working in structured credit.

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