

Federal Banking Agencies' Basel III Endgame Mulligan

March 20, 2026

Following significant backlash over the original set of proposals to implement the so-called Basel III “endgame” in 2023 (the “[2023 Proposals](#)”), the Federal Reserve Board (“FRB”), Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency (the “Agencies”) issued for comment:

- A [re-proposal](#) of the Basel III “endgame” (the “B3E Re-Proposal”) that would apply an “expanded risk-based approach” (“ERBA”) to Category I and II firms under the Agencies’ tailoring framework;
 - This includes a revised market risk capital rule that builds on the so-called “Fundamental Review of the Trading Book,” which would apply to all firms with sufficient levels of trading activity, as well as a new standardized Credit Valuation Adjustment (“CVA”) capital framework.
- A [proposal](#) that would modify the current “standardized approach” to risk-based capital applicable to all U.S. banking organizations other than those that apply ERBA (the “Standardized Approach Proposal”); and
- A [re-proposal](#) of revisions to the capital surcharge for the eight U.S. global systemically important bank holding companies (“U.S. GSIBs,” which are the Category I firms under the Agencies’ tailoring framework) (the “GSIB Surcharge Re-Proposal”).

Notably, the Agencies are formally rescinding the 2023 Proposals. Comments on each new proposal are due by June 18, 2026.

Rather than trying to summarize the proposals in depth, we provide our initial reactions to the proposals, noting where relevant areas particularly contrast with the original proposals or the current rule.

B3E Re-Proposal

The B3E Re-Proposal is the Agencies' latest effort to adopt the Basel Committee on Banking Supervision's 2017 revisions to the Basel III framework (the "Basel Framework"). Although the 2023 Proposal was structurally consistent with the Basel Framework, the Agencies had proposed to gold-plate requirements in a way that would have resulted in significant increases in system-wide capital. This over-calibration was met with significant public backlash and internal dissent, and informs the Agencies' more measured approach under the B3E Re-Proposal. In particular, the B3E Re-Proposal purports to take the current standardized approach as a starting point, and "only adopt treatments consistent with the Basel standards when they would improve the risk sensitivity and consistency of the requirements applicable to covered banking organizations, do not conflict with existing U.S. law, and are appropriate for U.S. banking organizations." Following this paradigm, the B3E Re-Proposal would scale back much of the 2023 Proposal's gold-plating, although it remains to be seen whether the more modest increase in capital represents the "right" amount of point-in-time capital requirements for large banks.

Applicability

- Scope and Opt-In. The B3E Re-Proposal would apply to Category I and II firms under the FRB's tailoring framework. Smaller firms would be able to opt into the framework, although given the concurrent Standardized Approach Proposal, which would reduce capital requirements for most smaller firms, it remains to be seen whether any firms will do so given the increased operational burdens associated with ERBA relative to the standardized approach.
- *Limited Mandatory Application.* The 2023 Proposal would have been more broadly applicable to all Category I-IV firms. Although the brunt of capital increases would have been borne by Category I and II firms, the 2023 Proposal would have resulted in significant operational burdens on Category III and IV firms to implement a wholly new, parallel set of capital requirements.
- *Opt-In.* Instead, the B3E Re-Proposal would allow other firms to opt into the framework. The opt-in would also mean (permanently) opting in to the requirement to reflect most elements of accumulated other comprehensive income ("AOCI") in regulatory capital, and generally would be effective 12 months after written notice of the election.

- The Agencies estimate that three Category III or IV firms would see a reduction in capital requirements in the range of 3–7% if they opted to apply ERBA rather than the Standardized Approach Proposal.
- The Agencies also estimate that a third of banking organizations below Category IV would see reductions of between 5–10% if they were to apply ERBA, with a small number seeing reductions greater than 10%.
- *Application to Foreign Banks.* The B3E Re-Proposal would remove the exemption that currently allows intermediate holding companies that otherwise meet the applicable thresholds not to calculate capital requirements under the advanced approaches. Currently, however, no such firms meet the Category I or II criteria.
- Effective Date. The Agencies have not proposed an effective date for the B3E Re-Proposal and specifically seek comment from the public on timing/transition.

Economic and Impact Analysis

- Expanded Economic Impact Analysis. Compared to the 2023 Proposal, which was widely criticized for lacking in-depth economic analysis, the B3E Re-Proposal includes hundreds of pages of impact and economic analysis. Notwithstanding the length, it remains to be seen whether this analysis is sufficiently comprehensive or rigorous. As with 2023, we expect actual impacts to differ from the Agencies' estimates due to methodological differences and data constraints on the Agencies' part. Nonetheless, we have included relevant tables from the Agencies' analysis, which may reveal directional trends.
- *Impact Across Levels.* The Agencies estimate the B3E Re-Proposal to produce modest, but directionally different effects on capital requirements across organizational levels (see below increases for bank holding companies and decreases for depository institution subsidiaries). This divergence is primarily attributable to the distribution of risk exposures across organizational structures. Market and operational risks are more heavily concentrated at the holding company level, whereas depository institutions tend to have lower exposure to these risk categories.
- Cumulative Impacts. For a number of years, firms have raised concerns about the need for holistic impact analysis. In response, the Agencies analyses also include impact analysis intended to illustrate the cumulative impacts of the B3E Re-Proposal

and other recent or concurrent proposals (e.g., the GSIB Surcharge Re-Proposal, proposed stress test changes) would have on affected firms.

- Variation Across Firms. The analysis also highlights considerable variation across individual firms. Among the nine Category I and II bank holding companies, the standard deviation of the percentage change in Common Equity Tier 1 (“CET1”) capital requirements is estimated at approximately 8.7%, indicating that firm-specific outcomes are heavily influenced by differences in business models and exposure to particular risk categories.
- Summary of Agency Analysis. Below, we reproduce a subset of the tables included with the B3E Re-Proposal.

ERBA Standalone Impact on Capital Requirements

Table VII.1: Estimate of the B3E Re-Proposal’s Impact on Aggregate Capital Requirements of Category I and II Banking Organizations (%)

	CET1	Tier 1
Bank Holding Companies	+1.4%	+1.6%
Depository Institution Subsidiaries	-4.8%	-2.3%

ERBA Standalone Impact on Risk-Weighted Assets (“RWA”) by Risk Category

Table VII.2: Category I and II Banking Organization RWAs Under the B3E Re-Proposal by Risk Category (\$ billion)

	Current		Expanded Risk-Based Approach
	Standardized Approach	Advanced Approaches	
Bank Holding Companies			
Credit Risk	7,235	4,890	6,165
Operational Risk		1,745	927
CVA		280	207
Market Risk	453	453	546

	Current		Expanded Risk-Based Approach
	Standardized Approach	Advanced Approaches	
Total ¹	7,673	7,362	7,820
Depository Institution Subsidiaries ²			
Credit Risk	6,173	4,015	5,168
Operational Risk		1,252	637
CVA		202	132
Market Risk	256	257	309
Total	6,413	5,718	6,220

Cumulative Impact of Recent Capital Proposals on Capital Requirements

Table VII.3: Cumulative Impact of Proposals on Capital Requirements of Category I and II Bank Holding Companies

	Cumulative % Change in Requirements			Aggregate Leverage / Risk-Based Requirement
	CET1		Tier 1	
Current Rule	Pre-Nov 2025 Rules	-	-	99.0%
	+ Recent eSLR changes	-	-2.3%	76.8%
Proposals	+ This proposal	1.4%	-0.7%	75.8%
	+ GSIB surcharge proposal	-2.4%	-3.9%	79.4%
	+ Proposed stress test changes	-4.8%	-6.0%	81.1%

Cumulative Impact of Recent Capital Proposals on CET1 Capital Requirements by Risk Type

Table VII.4: CET1 Capital Requirements of Category I and II Bank Holding Companies By Risk - Current Rule and Combined Proposal (\$bn)

¹ Data in the "Total" rows of the table also reflect deductions from RWAs for excess allowances for credit losses and allocated transfer risk reserves.

² Includes all depository institution subsidiaries of Category I and II bank holding companies.

Current Rules					
Advanced Approaches		Standardized Approach	Binding	Combined Proposals	Change vs. Binding
Credit	507	690	680	612	-10.0%
Operational	180	102	113	130	14.9%
Market	47	50	49	42	-5.8%
CVA	29	16	17	34	96.0%
Total	764	858	860	818	-4.8%

Note: This table shows banking activity CET1 capital requirements for Category I and II bank holding companies under the current standardized and advanced approaches and the proposal, inclusive of the GSIB surcharge proposal and proposed stress test changes. Estimated requirements are constructed separately for 2024 and 2025 stress tests, and the reported numbers reflect the average across these two estimates. Estimates are based on an as of date of June 30, 2025. Source: Special data collection, FR Y-9C, FR Y-14, stress testing output, and agency calculations as described in section VII.D.

ERBA Impact on RWAs by Banking Activity

Table VII.5: Banking Activity RWAs Under the Current Standardized Approach and the Proposal

	Standardized Approach (\$bn)	Expanded Risk-Based Approach (\$bn)	Change vs. Standardized
Traditional Lending	3,863	3,488	-9.7%
Corporate	1,964	1,604	-18.3%
Retail	946	1,029	8.8%
Res. Real Estate	953	855	-10.3%
Credit Facilitation	1,598	1,433	-10.3%
Trading-Related Activities	1,748	2,289	30.9%
Other Banking Services	0	144	N/A
Fixed or Other Assets	463	466	0.5%
Total	7,673	7,820	1.9%

Note: This table shows banking activity RWAs under the current capital rule and proposal for 9 banking organizations subject to Category I and II capital standards. RWAs are as of June 30, 2025. Source: Special data collection, FR Y-9C, FR Y-14, and agency calculations as described in section VII.D.

ERBA Impact on Risk-Weighted Assets by Banking Activity and Risk Type

Table VII.6: Banking Activity RWAs (\$ bn) by Risk Type Under the Proposal

	Credit	Operational	Market	CVA	Total ³
Traditional Lending	3,134	366	0	0	3,488
Corporate	1,523	86	0	0	1,604
Retail	860	173	0	0	1,029
Res. Real Estate	751	106	0	0	855
Credit Facilitation	1,278	160	0	0	1,433
Trading-Related Activities	1,286	257	546	207	2,289
Other Banking Services	0	144	0	0	144
Fixed or Other Assets	467	0	0	0	466
Total	6,165	927	546	207	7,820

Source: Special data collection, FR Y-9C, FR Y-14Q, and agency calculations as described in section VII.D.

Cumulative Impact of Proposals and Proposed Stress Test Changes on CET1 Capital Requirements by Banking Activity

Table VII.7: Banking Activity CET1 Capital Requirements for Category I and II Banking Organizations Under the Current Standardized Approach and the Combined Proposals

	Standardized Approach (\$bn)	Combined Proposals (\$bn)	Change vs. Standardized
Traditional Lending	402	360	-10.6%
Credit Facilitation	171	151	-11.8%
Trading-Related Activities	224	242	9.2%
Other Banking Services	14	18	33.5%
Fixed or Other Assets	47	47	-0.3%
Total	858	818	-4.6%

Note: This table shows banking activity CET1 capital requirements under the current capital rule and combined proposals (current proposal, GSIB surcharge, and proposed stress test changes) for 9 banking organizations subject to Category I and II capital standards. RWAs are as of June 30, 2025. Source: Special data collection, FR Y-9C, FR Y-14, and agency calculations as described in section VII.D.

General Characteristics

- **Single Stack and Opt-In.** Currently, Category I and II firms must compute capital ratios under both the standardized approach and advanced approaches, and must take the lower ratio as their binding constraint. The B3E Re-Proposal would replace both approaches with a single, revised standardized approach.

³ Includes RWA deductions—allocated proportionally to pre-deduction RWAs.

- *Single Stack.* The 2023 Proposal would have retained a dual stack approach, replacing the advanced approaches with an ERBA.
- *Collins Amendment.* In practice, ERBA would have been the binding constraint. However, the Agencies may have felt the need to retain the current standardized approach to comply with Section 171 of the Dodd-Frank Act, which requires that generally applicable risk-based leverage capital requirements serve as a floor for all risk-based and leverage capital requirements.
- *Application of Buffers.* The single stack approach also means that the capital conservation buffer (the stress capital buffer (“SCB”), the countercyclical capital buffer (if activated) and GSIB surcharge) would apply in the same manner as it currently applies to the standardized approach ratios. Previously, complications arising from application of buffers to the dual stack drew significant criticism from industry groups.
- Stress Testing Overlap. The FRB’s Comprehensive Capital Analysis and Review exercise, which helps to set firms’ SCB requirements, has drawn significant scrutiny in recent years, and is currently in the process of being [overhauled](#). As relevant to the B3E Re-Proposal, the 2023 Proposal was widely criticized for failing to consider overlap between the capital and stress testing frameworks, including with respect to the new operational and market risk components.
- *Cumulative Impact Analysis.* In response to this criticism, the Agencies emphasized that it sought to consider the cumulative effect of the entire capital framework, and that although the B3E Re-Proposal is expected to increase minimum requirements for operational risk and market risk, revisions to the stress test models are estimated to result in a decrease in related requirements for these risks.
- Indexing Thresholds to Inflation. The B3E Re-Proposal includes nine different dollar thresholds used to set capital requirements or determine the scope of their applicability. In response to long-standing criticism regarding the use of static thresholds more generally, the B3E Re-Proposal would index these thresholds based on the consumer price index for urban wage earners and clerical workers (“CPI-W”) every two years, with the possibility of off-cycle discretionary adjustments.

Numerator (Composition of Capital)

- Mortgage Deduction. The B3E Re-Proposal would remove the requirement to deduct any amount of mortgage servicing assets (“MSA”) from CET1 capital and would not consider MSAs when calculating relevant deduction thresholds, instead subjecting MSAs to a 250% risk weight. Presumably, this frees up room in existing deduction buckets for other activities.
- *Political Pressure*. These requirements are intended to incentivize participation in mortgage markets and servicing mortgage originations.

Denominator Changes (RWAs)

- General Credit Risk. The B3E Re-Proposal is structurally similar to the 2023 Proposal, with certain notable modifications. Both the B3E Re-Proposal and 2023 Proposals are standardized approaches to RWAs that would assign a standardized set of risk weights to asset classes based on supervisory factors, rather than internal bank models.
- *Defaulted Exposures*. The 2023 Proposal would have assigned a 150% risk weight to all non-real estate “defaulted exposures,” which would have been based on an enhanced definition of “defaulted exposure” that would have been broader than the current advanced approaches rule’s definition of “defaulted exposure.” This enhanced definition would have been operationally difficult (or impossible) to implement. In response to comments, the B3E Re-Proposal would limit the more punitive 150% risk weight for defaulted exposures to those loans that are 90 days or more past due or in nonaccrual.
- *Bank Exposures*. Consistent with the Basel Framework and in response to comments, the B3E Re-Proposal introduces a 30% category for highly capitalized Grade A banks. The Agencies declined to broaden the lower risk weights for certain short-term self-liquidating, trade-related contingent items to cover interbank exposures more generally.
 - The Agencies declined to propose to treat nonbank financial institutions (such as broker-dealers) as bank exposures, even if the nonbank firms are affiliated with a banking organization.
- *Real Estate Exposures*. The risk weights for “regulatory residential real estate exposures” have been conformed to the Basel Framework. Previously, the 2023

Proposal had proposed to gold-plate these requirements by 20%, which drew significant criticism, including from outside of the banking sector.

- Under the B3E Re-Proposal (but not the 2023 Proposal), in order to qualify as a regulatory residential real estate exposure, a loan must not have been modified.
- The Agencies declined to follow the Basel Framework's approach to standalone junior-lien real estate exposures (applying a 1.25 to the risk weight that would apply after aggregating loan amounts with more senior loans and calculating loan-to-values), instead applying a 100% risk weight to all junior and second mortgage exposures.
- Residential real estate exposures that are not dependent on the cash flows generated by the real estate that are 90 days past due or in nonaccrual would be assigned a 100% risk weight. The 2023 Proposal would have expanded the applicability of the more punitive risk weights to a broader range of defaulted exposures.
- The B3E Re-Proposal eliminates the 2023 Proposal's concept of a risk-weight multiplier residential mortgage exposures with currency mismatch.
- *Retail Exposures.* The risk weights for retail exposures have been conformed to the Basel Framework. Previously, the 2023 Proposal had proposed to gold-plate these requirements by 10%.
 - The B3E Re-Proposal would eliminate the 2023 Proposal's granularity limit for retail exposures, which would have, limited the amount of any single exposure that qualifies as a regulatory retail exposure to 0.2% of a banking organization's total retail exposure.
 - In a departure from the Basel Framework, the Agencies declined to create a separate 85% risk weight category for "corporate small and medium-sized enterprises."
 - The B3E Re-Proposal eliminates the 2023 Proposal's concept of a risk-weight multiplier for certain retail mortgage exposures with currency mismatch.
- *Corporate Exposures.* The B3E Re-Proposal would make the more favorable 65% risk weight for "investment grade" exposures available to any exposure to a company that the banking organization, using one or more internal credit risk rating systems that meet certain requirements, determines is investment grade.

Under the 2023 Proposal, this designation would only have been available to certain publicly listed companies, which drew significant criticism from outside of the banking sector (e.g., among pension funds and registered investment companies).

- Qualifying internal credit risk rating systems must also be used to inform material business or risk management decisions. In addition, banking organizations would be required to define which obligor rating grades (i.e., not at the exposure level) with its internal credit risk rating systems are considered to be investment grade.
- The ratings would be required to assign rating grades no less frequently than annually, must be updated based on new material information, must incorporate both quantitative and qualitative factors, and could not rely solely on third-party assessments of credit risk. The systems would be required to be independently validated at least annually, including by benchmarking ratings against external information.
- In some ways, the credit rating system requirement is a way for the Agencies to leverage credit rating systems developed under the advanced approaches without explicitly using those systems to generate inputs to capital requirements.
- *Project Finance Exposures.* The B3E Re-Proposal largely aligns with the Basel Framework for project finance exposures but declined to provide a separate 80% risk weight category for certain high-quality project finance exposures in the operational phase.
- *Subordinated Exposures.* The B3E Re-Proposal largely aligns with the Basel Framework in creating a new set of risk weights for subordinated exposures. The Agencies did not address industry comments to eliminate the category or otherwise clarify that certain *effectively* senior exposures be treated as such, even if they are technically legally subordinated.
- *Off-Balance Sheet Exposures.* The B3E Re-Proposal is largely consistent with the Basel Framework's approach but deviates in certain respects.
- In response to "inconsistent application" of the current definition of "commitment," the Agencies propose to revise the definition of "commitment" to clarify that any contractual arrangement under which a banking organization and an obligor agree to the terms applicable to one or more future extensions of credit, purchases of assets or issuances of credit

substitutes by the banking organization is a commitment, whether or not the arrangement is unconditionally concealable.

- Compared to the 2023 Proposal, the methodology for sizing undrawn retail exposures is based on the exposure's highest drawn amount over the previous 24 months (compared to average drawn amounts multiplied by 10). The Agencies then solicit comment on the appropriate methodology for non-retail exposures.
- Credit Risk Mitigation.
 - *No Minimum Haircuts for SFTs.* Although no other major jurisdiction had done so, the 2023 Proposal would have introduced minimum haircuts for securities financing transactions. Following significant pushback, the Agencies appear to have withdrawn that aspect of the proposal.
 - *Revised Collateral Haircut Approach and SA-CCR for Cross-Product Netting Sets.* The B3E Re-Proposal would align with the Basel Committee's revised comprehensive approach for securities financing transactions, but in response to advocacy, would also allow firms to apply the standardized approach for counterparty credit risk ("SA-CCR") for netting sets that include both non-cleared repo-style transactions (treated as forward derivative transactions with the security underlying the repo-style transaction) and derivatives that are executed under an eligible cross-product netting arrangement.
 - The B3E Re-Proposal would also propose to revise SA-CCR to permit the netting of collateralized-to-market and settled-to-market client-facing derivative transactions, and propose a potential change to the hypothetical capital requirement for Qualifying Central Counterparties default fund contribution calculations to facilitate cross-margining agreements.
 - Relative to the current collateral haircut approach, the revised approach includes greater recognition of netting and diversification, higher haircuts for equities and "other" exposure types, and more granular haircut buckets for non-sovereign debt.
 - In response to comment, the "look-through" for mutual fund collateral has been expanded to exchange-traded funds ("ETFs").
 - The B3E Re-Proposal dispenses with the previously proposed requirement for collateral recognition that certain investment grade corporate debt security issuers have publicly traded securities outstanding.

- *Eligible Guarantees (and Guarantors).* The B3E Re-Proposal would largely retain the substitution approach from the current standardized approach.
 - The Agencies declined to remove the “eligible guarantor” requirement, allow for recognition of eligible credit derivatives that reference parent entities of an obligor or allow recognition of fixed notional credit derivatives that cover a derivative exposure.
- *Revisions to Simple Approach.* Currently, banking organizations are permitted to recognize the risk-mitigating benefits of financial collateral securing any transaction using the “simple approach.” The B3E Re-Proposal would eliminate the onerous requirement that collateral must be subject to a “collateral agreement” for the life of the exposure, instead focusing on the ability of the secured party to close out in a timely manner.
 - If financial collateral has been pledged or transferred by a party other than the obligor, the insolvency of the pledgor or transferor must not impair the secured party’s rights as to the financial collateral.
 - The B3E Re-Proposal would also eliminate the requirement that the collateral and exposure be denominated in the same currency, instead proposing to apply a haircut (starting at 8% and scaled upwards based on the frequency of revaluation) to any mismatch.
- *Prepaid Credit Protection.* The B3E Re-Proposal would introduce a new framework for so-called “prepaid credit protection arrangements,” defined to include contractual agreements (such as credit-linked notes) where a protection purchaser receives an initial amount in cash from a protection provider that the protection purchaser is required to repay, less any losses that the protection purchaser incurs due to a credit event on the protected exposures. Previously, these arrangements may not have qualified for credit risk mitigation because the prepaid amounts did not always constitute “financial collateral.”
 - As with the revisions to the “simple approach,” firms would be required to make maturity and currency mismatch adjustments.
- Securitization Framework.
 - *Replacing SSFA with SEC-SA.* As with the 2023 Proposal, the B3E Re-Proposal would replace the standardized supervisory formula approach (“SSFA”) methodology for securitization exposures with the securitization standardized approach (“SEC-SA”) methodology, which is substantively identical to the SSFA

except for certain modifications to the parameter definitions, a lower risk-weight floor for securitizations that are not re-securitizations and a higher risk-weight floor for re-securitizations.

- In response to widespread criticism, the B3E Re-Proposal would retain the critical p-factor at 0.5 (as opposed to 1.0 as originally proposed).
- The Agencies declined to propose many other recommendations, including an even lower p-factor for certain qualifying securitization transactions.
- *Key Definitional Changes.* The definition of “synthetic securitization” would be modified to include the new framework for prepaid credit protection arrangements, ensuring that credit-linked notes may qualify as synthetic securitizations. In addition, the B3E Re-Proposal would clarify that the performance of a securitization exposure is expected to depend solely on the performance of the underlying exposures, aside from the performance of common supporting transaction participants such as servicers and trustees.
- *Other Assorted Changes.* Other assorted technical changes from the 2023 Proposal include an expanded definition of “eligible clean-up call” to allow for certain regulatory and tax event triggers, largely reverting the definition of attachment point and detachment point in the SEC-SA to the current SSFA, excluding from the W parameter any exposures directly and unconditionally guaranteed by the U.S. government, its central bank or a U.S. government agency, and including non-SEC-SA approaches for purchased credit derivatives, among other changes.
- Equity Risk.
 - *Scope Changes.* In contrast to the current rule, and consistent with the 2023 Proposal, material publicly traded equity exposures generally would be subject to the proposed market risk framework rather than the (credit) equity risk framework. Similarly, equity exposures to investment funds would be subject to the proposed market risk framework if the banking organization has access to the fund’s prospectus and is either able to calculate a market risk capital requirement for its proportional ownership share of each exposure held by the fund or obtain daily price quotes.
 - In response to comments, certain equity positions in investment funds arising from bank-owned life insurance, corporate owned-life insurance owned by an affiliate, or that the banking organization has acquired for the purpose of providing such fund with sufficient initial equity to permit the fund to attract unaffiliated investors and held for less than five years (seed capital

investments) and hedges of such positions that qualify for effective hedge pair treatment would not be included as market risk covered positions.

- *Simple Risk-Weight Approach.* Although the Agencies considered replacing the current simple risk-weight approach with one that would have, among other things, removed the 100% bucket for non-significant equity exposures and introduced a 100% risk weight for certain tax equity financing transactions and SBIC exposures, the Agencies concluded that the operational burdens outweighed the potential enhancements to risk sensitivity, ultimately opting to retain the approach under the current standardized approach.
- The B3E Re-Proposal would also retain the current capital rule's risk weight framework for hedge pairs and the look-through approaches for equity investments in funds.
- Operational Risk.
 - *Overview.* Consistent with the Basel Framework, the B3E Re-Proposal would replace the advanced measurement approaches, which were based on a banking organization's internal models and were available to the largest banks, with a standardized approach for operational risk.
 - *Business Indicator Component.* The requirements under the proposed standardized approach would be a function of a banking organization's business indicator component.
 - The interest, lease and dividend component of the business indicator would be largely the same as the 2023 Proposal.
 - The Services Component and Financial Component of the 2023 Proposal would be replaced by a noninterest component. This noninterest component would include netting of income and expenses. Reporting on a gross basis had been a primary driver of over-capitalization under the 2023 Proposal.
 - *Removal of ILM.* The 2023 Proposal would have required firms to multiply the business indicator component by an internal loss multiplier, floored at 1. In response to comments, the Agencies have eliminated this multiplier. Elimination of the multiplier also means scaling back some of the operational loss data contemplated by the 2023 Proposal.

- Market Risk.
 - The market risk requirement would apply to Category I and II depository institution holding companies, as well as firms with trading assets and trading liabilities of \$5 billion, measured based on four-quarter averages or equal to 10% or more of total consolidated assets as of most recent quarter end; in each case, excluding trading assets and liabilities attributable to customer and proprietary broker-dealer reserve bank accounts.
 - The market risk capital framework in the B3E Re-Proposal is based on the framework set out in the Basel Framework. According to the Agencies, the main changes relative to the 2023 Proposal were to (1) recognize full diversification (zero correlation) for certain (type A) non-modellable risk factors, (2) recognition of diversification between positions modeled under the standardized approach and the internal models approach, (3) use a single default risk calculation for all trading desks rather than separate default risk calculations for modeled and non-modeled desks, (4) cap the amount of capital required under the internal models approach at the amount required by the standardized approach for market risk in certain circumstances, (5) remove the Spearman Correlation profit and loss attribution test for internally modelled desks and (6) clarify netting for Uniform Mortgage-Backed Securities (treating UMBS securities, including TBAs and UMBS-eligible deliverable pools, as being issued by a single obligor).
 - Based on the Agencies' estimates, these changes would result in an increase in market risk capital requirements, but smaller than those contemplated by the 2023 Proposal.
- Credit Valuation Adjustment.
 - The B3E Re-Proposal would apply the CVA framework to all Category I and II depository institution holding companies and their subsidiary depository institutions that are subject to the market risk framework. The framework would also apply to other firms subject to the market risk framework with over-the-counter derivative notional amounts of \$1 trillion or more.
 - The B3E Re-Proposal's CVA framework is based on the Basel Framework's basic CVA and standardized CVA approaches, with certain conforming changes based on U.S. market conventions (e.g., by excluding securities financing transactions from the framework).
 - The primary departure from the 2023 Proposal is the exclusion of client-facing derivative transactions from the CVA framework.

- Based on the Agencies’ estimates, these changes would result in a decrease in CVA capital requirements relative to the current advanced approaches.

Standardized Approach Proposal

Applicability

- Scope. The Standardized Approach Proposal would apply to virtually all firms that are not subject to ERBA, i.e., all those firms that are subject to the standardized approach today.
- Goals. The Agencies’ stated goal is to “improve risk sensitivity while generally retaining the simplicity of the current framework.” In particular, although the Agencies referenced their periodic Economic Growth and Regulatory Paperwork Reduction Act process, there is likely no coincidence that the Standardized Approach Proposal was released alongside the B3E Re-Proposal.
- Effective Date. It is unclear when the rule would be effective.

Economic and Impact Analysis

- Summary of Agency Analysis. Below, we reproduce tables included with the Standardized Approach Proposal.

Standardized Approach Proposal’s Impact on RWAs, CET1 and Tier 1 Capital Requirements

Table V.1: Summary of the Proposal’s Estimated Impact on RWAs and CET1 and Tier 1 Capital Requirements (%)

	RWAs	Capital Requirements	
		CET 1	Tier 1
Covered Depository Institutions			
No AOCI	-8.6	-8.6	-7.4
With AOCI Impact ⁴		-6.4	-5.7
Covered Holding Companies			
No AOCI	-8.8	-6.8	-6.9
With AOCI Impact		-4.8	-5.3

⁴ As described below in section V.E, the impact of AOCI is represented as a change in requirements by adding the estimated long-run impact of AOCI on equity to requirements. Under the proposal, recognizing most elements of AOCI in regulatory capital would be mandatory only for Category III and IV banking organizations and their subsidiaries.

Source: Special data collection, FR Y-9C, FFIEC Call Reports, and agency calculations as described in sections V.D. and V.F.

**Standardized Approach Proposal's Impact on RWAs, CET1 and Tier 1
Capital Requirements by Firm Size**

Table V.2: Summary of the Proposal's Estimated Impact on RWAs and CET1 and Tier 1 Capital Requirements (%), by Banking Organization Size

	RWAs	Capital Requirements	
		CET 1	Tier 1
Depository Institutions			
Category III/IV Sub., No AOCI	-9.1	-9.1	-7.8
Category III/IV Sub., AOCI		-4.7	-4.3
Assets \$10 to \$100 bn	-8.3	-8.3	-7.5
Assets Below \$10 bn	-7.7	-7.7	-6.6
Holding Companies			
Category III/IV, No AOCI	-9.5	-6.1	-6.4
Category III/IV, AOCI		-3.0	-3.8
Category III/IV, AOCI and Proposed Stress Test Changes		-5.3	-5.6
Assets \$10 to \$100 bn	-7.9	-7.9	-7.9
Assets below \$10 bn	-7.5	-7.5	-7.4

Source: Special data collection, FR Y-9C, FFIEC Call Reports, and agency calculations as described in sections V.D and V.F.

Standardized Approach Proposal's Impact on RWAs by Lending Category

Table V.4: Impact on RWAs

Current and revised standardized approach (SA) RWAs, covered banking organizations, billions							
		Depository Institutions			Holding Companies		
		Current SA	Revised SA	Change	Current SA	Revised SA	Change
General Risk Weights	Residential Mortgages	\$755	\$530	-29.8%	\$606	\$421	-30.4%
	Commercial Real Estate	\$1,896	\$1,801	-5.0%	\$1,426	\$1,354	-5.0%
	Other Corporate Exposures	\$3,023	\$2,808	-7.1%	\$3,095	\$2,878	-7.0%
	Retail	\$1,297	\$1,167	-10.0%	\$1,182	\$1,063	-10.0%
	Securitization	\$117	\$96	-17.6%	\$108	\$88	-18.0%
	Commitments	\$20	\$17	-11.3%	\$17	\$15	-12.2%
	Other Assets from 100% to 90% Risk Weight	\$473	\$426	-10.0%	\$494	\$445	-10.0%

MSA Deduction Elimination	\$0.0	\$0.4		\$0.0	\$0.0	
Exposures Shifting from Market Risk Framework to Standardized Approach	\$0.0	\$1.3		\$0.0	\$3.3	
Allowance Deduction Change	\$0.0	(\$6.5)		\$0.0	(\$5.9)	
Other Assets – Risk Weights Unchanged	\$1,119	\$1,119	0.0%	\$865	\$865	0.0%
Market Risk	\$12	\$4.2	-66.2%	\$157	\$95.7	-39.2%
Credit Valuation Adjustment (CVA) Risk	\$0.0	\$2		\$0.0	\$29.7	
RWAs for Trading-Related Activities (Market Risk and CVA Risk, Subtotal)	\$12	\$6	-48.4%	\$157	\$125	-20.3%
Total	\$8,711	\$7,966	-8.6%	\$7,950	\$7,253	-8.8%

Source: Special data collection of 2023; FFIEC Call Reports; and FR Y-9C, June 30, 2025.

Other corporate exposures category includes unused commitments currently risk-weighted at 100%, and repo currently risk-weighted at 100%; all such exposures are risk-weighted at 95% under the revised SA.

The Commitments row includes all unused commitments except those currently risk-weighted at 100%. All commitments under one year have a credit conversion factor change from 0.2 to 0.4, those over one year have credit conversion factor change from 0.5 to 0.4.

“Allowance deduction change” accounts for the change in deduction for excess adjusted allowance for credit losses to RWAs that occurs when credit RWAs change. This change in RWAs would reflect a change in RC-R and HC-R part II. Item 29.

Standardized Approach Proposal’s Impact on RWAs by Firm Size

Impact on RWAs by Bank Size

Table V.5: Impact on RWAs by Bank Size

RWA Totals	Depository Institutions			Holding Companies		
	Current SA	Revised SA	Change	Current SA	Revised SA	Change
Bank Cohort						
Category III and IV	\$4,213	\$3,828	-9.1%	\$4,655	\$4,214	-9.5%
Total Assets Between \$10 Billion and \$100 Billion	\$2,426	\$2,225	-8.3%	\$2,431	\$2,239	-7.9%

Total Assets Below \$10 Billion	\$2,071	\$1,913	-7.7%	\$866	\$799	-7.5%
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Numerator (Composition of Capital)

- Mortgage Deduction. Consistent with the B3E Re-Proposal, the Standardized Approach Proposal would remove the requirement to deduct any amount of MSAs from CET1 capital and would not consider MSAs when calculating relevant deduction thresholds, instead subjecting MSAs to a 250% risk weight.
 - These requirements are intended to reduce disincentives for participating in mortgage markets and servicing mortgage originations.
- AOCI. Category III and IV banking organizations would no longer be eligible for the AOCI opt-out and would have to include unrealized losses and gains on their available-for-sale securities in their capital (but would be required to ignore any AOCI gains and losses resulting from certain cash flow hedges).
 - The Standardized Approach Proposal would provide for a five-year transition, compared to the three-year transition under the 2023 Proposal.

Denominator Changes (RWAs)

- General Credit Risk. In certain places, the Standardized Approach Proposal would mirror the approach under the B3E Re-Proposal. In other places, it would propose a simpler standard or decline to make any changes.
 - *Residential Mortgage Exposures*. Consistent with the B3E Re-Proposal, the Standardized Approach Proposal would introduce an LTV-based approach for assigning risk weights, depending on whether the primary source of repayment is dependent on cash flows generated by the real estate.

Table III.1: Proposed Risk Weights for Residential Mortgage Exposures That Are Not Dependent on the Cash Flows of the Real Estate

	LTV Ratio ≤ 50%	50% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV Ratio > 100%
Risk Weight	25%	30%	35%	45%	55%	75%

Table III.2: Proposed Risk Weights for Residential Mortgage Exposures Dependent on the Cash Flows of the Real Estate

	LTV Ratio ≤ 50%	50% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV Ratio > 100%
Risk Weight	35%	40%	50%	65%	80%	110%

- *Corporate Exposures.* The Standardized Approach Proposal would reduce the risk weight applicable to corporate exposures from 100% to 95%.
- *Other Assets.* The Standardized Approach Proposal would reduce the risk weight applicable to assets not specifically assigned a different risk weight from 100% to 90%. This would include most retail exposures.
- *Off-Balance Sheet Exposures.* The Standardized Approach Proposal would mostly align with the B3E Re-Proposal as to off-balance sheet commitments that are not unconditionally cancelable. This would also include a 40% credit conversion factor for all commitments that are not unconditionally cancelable. Unconditionally cancelable commitments would remain subject to a 0% credit conversion factor.
- Revisions would include a revised definition of “commitment” (see discussion above).
- The undrawn exposure amount of all commitments (not just retail) without a pre-set limit would be sized using the exposure’s highest drawn amount over the previous 24 months.

- *Derivative Contracts.* A firm that elects to use SA-CCR would apply the same revised SA-CCR framework that is proposed in the B3E Re Proposal, regardless of whether the firm is subject to ERBA.
- Credit Risk Mitigation. The Standardized Approach Proposal would largely retain the current standardized approach's credit risk mitigation framework, with modifications for credit derivatives that do not include restructuring, removing the ability to recognize credit protection from nth-to-default credit derivatives, modernizing the "simple approach" to recognizing financial collateral, updating the collateral haircut approach and introducing a framework for prepaid credit protection arrangements (such as credit-linked notes).
 - See above for a discussion of the changes to the "simple approach," the collateral haircut approach and the framework for prepaid credit protection arrangements.
- Securitization Framework. The Standardized Approach Proposal largely retains the current securitization framework, except to align with the proposed ERBA (see discussion above).
- Indexing Thresholds to Inflation. The current standardized approach and Standardized Approach Proposal include three different dollar thresholds used to set capital requirements: (1) the \$1 million threshold used to determine whether a mortgage qualifies as a residential mortgage exposure; (2) the \$10 million threshold used to determine whether a company in which a banking organization owns equity instruments meets the definition of "financial institution,"; and (3) the \$50 billion threshold used to determine whether a covered banking organization is subject to enhanced public disclosure requirements. Consistent with the B3E Re-Proposal, the Standardized Approach Proposal would index these thresholds based on CPI-W every two years, with the possibility of off-cycle discretionary adjustments.

The GSIB Surcharge Proposal

- Proposed Changes. The GSIB Surcharge Proposal would make five main changes to the FRB's GSIB surcharge rule and to the Systemic Risk Report (FR Y-15), including changes to: (1) method 2 coefficients, (2) the short-term wholesale funding measure, (3) data averaging, (4) method 2 score bands to reduce cliff effects and (5) the content of certain systemic indicators and related FR Y-15 reporting.
 - *Method 2 Coefficients.* The proposal would make a one-time downward adjustment to the fixed method 2 coefficients by a factor of 1.2 and thereafter

index those coefficients annually based on a three-year moving average of nominal U.S. GDP growth, with no upward adjustment if the moving average is negative. The 1.2 adjustment factor would equal the observed 20% difference between the cumulative growth of aggregate method 2 and method 1 scores since the fourth quarter of 2019, rather than since 2015 (Alternative 3) when the rule was originally calibrated. Using fourth quarter 2015 as a starting point would have reduced all method 2 systemic indicator coefficients by 40%.

- *Short-Term Wholesale Funding.* The proposal would remove the RWA denominator from the short-term wholesale funding component of method 2 and recalibrate that component so that it represents approximately 20% of aggregate method 2 scores, rather than the roughly 30% weighting that has prevailed in practice.
- *Data Averaging.* The proposal would require U.S. GSIBs to calculate certain systemic indicators using averages of daily or monthly values rather than point-in-time measurements as of December 31.
 - Industry commenters had asked that firms not be required to report average daily values or, in some instances, the average of monthly values.
- *Reducing Cliff Effects.* The proposal would narrow the method 2 surcharge score bands from 100-basis point ranges associated with 50-basis point surcharge increments to 20-basis point ranges associated with 10-basis point increments. This change is not intended to alter the overall calibration of the method 2 surcharge and would not change the score band ranges for method 1.
- *Systemic Indicator Changes.* The proposal would expand the definition of “financial institution” (including by including ETFs), incorporate SA-CCR (presumably including any alpha factor) to measure derivative exposures, add two trading-volume indicators to substitutability, include derivatives exposure in cross-jurisdictional activity and revise certain short-term wholesale funding reporting instructions.
 - Industry commenters had asked to exclude ETFs from the definition of “financial institution.”
- Additional Changes. The proposal would clarify, without changing the substance of the current rule, the mechanics governing when an adjusted GSIB surcharge becomes effective. It would also consolidate FR Y-15 reporting for foreign banking organizations onto the same Schedules A through G used by domestic firms.

- Certain other industry requests do not appear to have been implemented (e.g., excluding guarantees associated with client clearing), although it will be difficult to know until the draft FR Y-15 form is released.
- Impact. Under the proposal, the FRB estimates that GSIB surcharges would decrease by 40 basis points on average, with the aggregate dollar amount of GSIB surcharges falling by approximately \$23 billion (10%). The FRB further estimates that method 1 surcharges would become binding for two of the eight current GSIBs.
- Relevance to Organizations Other Than GSIBs. The changes to the FR Y-15 generally would be relevant to all filers of the FR Y-15, not just GSIBs. The FRB estimates that the proposal would not change the tailoring category of any domestic banking organization or U.S. IHC of a foreign banking organization, although it could move the combined U.S. operations of one foreign banking organization from Category III to Category II; the FRB states that such a change would not alter that organization's regulatory requirements.
- Effective Date. The proposal would take effect two calendar quarters after adoption of a final rule. Comments on the proposal are due June 18, 2026.
- Industry stakeholders had made a number of comments on transition and timing, particularly timing issues related to ERBA adoption. Given that a specific timeframe has not been set forth for ERBA adoption, those issues remain open.

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Please do not hesitate to contact us with any questions.



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