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US implementation of Basel III

A first assessment of the March 2026 consultation paper on implementing Basel III in the US

The global implementation of the Basel III standards is a cornerstone of financial stability and of a level playing field for banks worldwide. Given the size of the US economy and banking system in general, and the global reach of its largest banks in particular, the delay in US implementation of Basel III has become a growing concern, which we documented in an earlier briefing. In March 2026, US authorities[1] have now published a new consultation paper that purports to pave the way towards the completion of Basel III in the US. In the present briefing, we aim to identify and assess US-specificities compared to the international standard. This analysis is not least relevant against the background of a recent ECB working paper that argued inter alia *that EU banks would have "somewhat higher" capital requirements "on average" if subject to current US rules.*

1. Overview

While the internationally agreed implementation date for Basel III on 1 January 2023[2] is long overdue, the process for implementation in the US encountered difficulties. On the one hand, it has been influenced by domestic banking turmoil, which to some in the US suggested additional conservatism on content and scope of application is warranted. Other voices warned of risks for economic growth and militated for less stringency. After an earlier and rather conservative consultation paper (also called Notice of Proposed Rulemaking or NPR) in 2023 got shelved, the change of administration in early 2025 is now

[1] The federal bank regulatory agencies, namely the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) have a delegated power from the legislature to issue rulemakings in the area of capital requirements.

[2] After the COVID-related deferral by the Basel Committee on Banking Supervision

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followed by a new consultation paper on capital requirements, which is complemented by a separate consultation paper on GSIB surcharges.[3]

The new consultation paper on capital requirements **does not aim to be more stringent** than the Basel III standard and it also **does not aim for a broader scope of application** than the US Basel II implementation.

There are several key structural particularities of the US bank regulatory framework that the European reader will find unusual. First, there is the **very narrow scope of application** of Basel III in the US, which is limited to 9 banks plus voluntary opt-ins. Some doubts as to **whether this is faithful to the Basel accord**, which requires application to all large internationally active banks, are justified. Moreover, recent troubles at smaller and mid-sized US banks have raised financial stability concerns and worries as to whether the narrow scope is a sufficiently prudent choice. Second, the **decisions not to implement some of the more sophisticated approaches** in the Basel framework and **to preclude the use of external ratings** are not against the letter of the Basel framework, but **conflict with the spirit of risk-sensitivity**.

The structural particularities drive in our view some of the material departures from the Basel framework. On the one hand, the US authorities seem to want to avoid the challenges of implementing and supervising those sophisticated approaches. On the other hand, however, they seem also intent on **sparing their banks some of the additional stringency[4] that Basel has built into the less risk-sensitive approaches**. For one, the US authorities propose **introducing some of the risk sensitivity of the more sophisticated approaches into the simpler ones**, where arguably it does not belong. For instance, some limited scope for banks' internal credit assessments is allowed within the Standardised Approach for credit risk. For credit risk mitigation, certain methods to adjust for mismatches – drawn from more sophisticated measurement methods – are accepted under the simple approach to be available in the US. Moreover, and maybe more problematically, there are **some downward adjustments in the proposed capital requirements that aim at undoing the conservatism built into the simpler methods**, such as a simple scalar applied to lower counterparty risk capital requirements for certain derivatives.

From a prudential perspective, we think the departures from Basel III are, on the whole, probably not dramatic in quantitative terms, but they **risk undermining the quality of risk management** when they introduce risk sensitivity into simpler approaches without imposing the commensurate risk management standards and supervision. This clearly aggravates the more general concern that, absent more sophisticated approaches, banks lack a regulatory incentive to move to better risk management and measurement. Moreover, **regarding the ongoing debate about regulatory and supervisory simplification in Europe, the US proposals offer an intriguing case study**. A framework without sophisticated approaches constitutes arguably a marked reduction of complexity, both of the regulatory framework which no longer requires rules for such approaches, and of supervision, which can avoid the processes and procedures for the related approvals and ongoing supervision. In the US example, such simplification clearly comes at a price in terms of risk sensitivity, but interestingly, the political economy of such simplification also means that the simpler regime ultimately may be less conservative and prudent.

From a competitiveness and level playing field perspective, it is true that the proposals are substantially less conservative than the earlier proposals of 2023 and that there are, compared to Basel III, a number of material departures on the downside. Overall, however, these departures in terms of pure quantitative capital requirements rather mitigate, but do not eliminate, the disadvantages resulting from the absence of the advanced approaches – namely, the advanced approaches would offer banks more risk sensitive, but also, on average, somewhat lower requirements. **We would thus not classify the US proposals as trying to give an unfair advantage to US banks.** That said, we do find the decision not to impose a floor based on the standardised approach potentially concerning. While the US framework is largely based on standardised approaches, it does entail an internal-models-based approach for market risk. For a US bank with a

[3] There is a third consultation paper that is directed at banks outside the scope of the US Basel III implementation. See also further below the section of this briefing on structural features, namely the scope of application.

[4] There are two reasons for additional stringency, i.e. higher capital requirements outcomes on average, under the standardised, when compared to the more advanced approaches. First, if the measurement is less risk sensitive, it has to be avoided that a bank with relatively more risk that is not picked up by the standardised approach ends up with too little capital. Second, the additional stringency of the standardised approaches is meant to incentivise banks to make the investments necessary for adopting the more advanced approaches.

diversified business model, the absence of an overall standardised floor may then not make much of a difference. **For a bank that concentrates on trading activity, a material competitive advantage could result.** Specifically regarding derivatives trading, the US proposals do not only potentially lower the Basel III requirements for market risk through the absence of the floor, but they also reduce them for counterparty credit and credit valuation adjustment (CVA) risk. Taking these two areas together, however, for different portfolio compositions, depending on whether derivatives are centrally cleared or not and what the counterparties are, the advantages in capital requirements may go one way or the other, taking also into account the competitive impact of the broad European CVA risk exemptions.

A recent ECB working paper argued, *inter alia,* that EU banks would have "somewhat higher" capital requirements "on average" if subject to current US rules. The authors suggest, using bank level data, that **large internationally active EU banks and GSIBs would be subject to "significantly higher" capital requirements in this counterfactual**. The notion of "significantly higher" is not quantified precisely, however we think we can read from a graph in the paper that the authors refer to a bank-by-bank range between about 2 and 17% higher capital requirements, with an average around 7 or 8%. According to the authors, these findings are mainly driven by (1) the stricter US approach for setting buffers for global systemically important banks, as well as (2) the legal limitations on the uses of internal models. As to (1), the US clearly seek to reduce the additional conservatism of their framework. As to (2), the picture is more ambiguous, as discussed in the preceding paragraphs. On most internal models, or more precisely, sophisticated or advanced approaches in the Basel framework, the US maintain a tight constraint. However, they drop any floors on market risk models and somewhat reduce the conservatism currently built into the standardised approaches. **Accordingly, the present picture will change with the proposed rules, probably less pronounced on average, and more pronounced for banks with large trading activities.**

A final concern is that **we have not seen any public announcements on the final timeline for application**. On the one hand, large parts of the US proposals are structurally simple, not least since Basel III's more sophisticated approaches do not form part of the proposals. However, the market risk proposals are more demanding to implement, and we assume that banks will probably demand a somewhat longer timeframe in their consultation responses.

The remainder of this briefing is structured as follows: it first provides a brief historical overview, followed by a detailed, section-by-section analysis of the consultation proposals, examining their scope and highlighting possible differences with Basel III.

2. The evolving US approach to Basel III implementation

In an earlier briefing of September 2025, we had discussed the timelines of Basel III implementation in detail. It turned out that the US stood out, together with South Africa, as the only Basel Committee member countries that had **not published their final rules**, while the agreed implementation deadline was January 2023.

It is important to recognise that the US authorities have in fact not been idle since the publication of the final Basel standard in 2017. Rather, a process has been ongoing and marked, on the one hand, by a desire for **additional prudence** under the impression of a banking turmoil in 2023, and, on the other hand, by **concerns over the economic impact** of more stringent banking rules. The latter concern gained influence under the current administration.

US banking rules are traditionally differentiated by bank size and business model. From a Basel standpoint, this is acceptable, because the framework has been agreed to apply to "*large internationally active banks*" only, without however a clear definition of what makes a bank large and internationally active. In this respect, the US banking turmoil of 2023 – marked by the failure of several mid-sized banks, most notably Silicon Valley Bank and Signature Bank – demonstrated problems with the way the rules are differentiated. Two medium-sized banks failed and a bail-out was considered necessary by the US government. As we discussed at the time in a briefing, the key risks that drove this turmoil were losses on Available for Sale securities and a lack of stable funding. Both risks had been addressed in the Basel III

framework, suggesting that a broader application of it might have mitigated, if not avoided, the episode of turmoil.

These events left a mark on **a first consultation paper** (often referred to as the "Basel III endgame proposals") published in July 2023, which **would have materially enlarged the scope of application** of the Basel standards and would have imposed **a number of substantially more stringent requirements** compared to the Basel standard itself. One US authority estimated that the draft would have increased the capital requirements for the US G-SIBs by around 16 to 25%, thus by substantially more than the EU implementation of Basel III was estimated to. The draft met opposition in most of the comment letters, warning that it would significantly increase borrowing costs, suppress lending, and hurt US competitiveness. It was never followed up by final rules. See here for more details.

Under the second Trump administration and following changes in the leadership of the US banking authorities, the new personnel hinted at new rules under preparation that would ease regulatory burden for banks and simplify capital calculations. This language and the absence of explicit references to the international agreement made us wonder at the time if there was still a clear commitment to Basel III implementation in the US. However, **the new consultation paper on capital requirements clearly follows the logic of the Basel agreement**. Nevertheless, it seems important to understand where it might depart from the Basel standards and, against the background of the 2023 turmoil, what its scope of application will be, for the level playing field and financial stability implications of these questions might be important.

3. Structural particularities

As alluded to in the previous section, the US applies what the authorities call a **"tailoring framework"**, according to which **different rules apply to four different categories of banks, see Table 1**.

Table 1: US bank categories under the tailoring framework

Category	Key Thresholds / Criteria
Category I	Identified as G-SIBs* based on systemic indicators (size, interconnectedness, cross-jurisdictional activity, substitutability, complexity)
Category II	≥ USD 700bn total assets OR ≥ USD 75bn in cross-jurisdictional activity
Category III	≥ USD 250bn total assets OR ≥ USD 75bn in risk-based indicators (short-term wholesale funding, nonbank assets, off-balance-sheet exposure)
Category IV	≥ USD 100bn total assets but do not meet Category I–III thresholds

Source: EGOV elaboration based on 12 CFR § 252.5 (Regulation YY)

The proposals for US Basel III implementation consist of:

a) the consultation paper on capital requirements for **Category I and II banks** and other banks that opt in; these capital requirements are called **"expanded risk-based approach" (ERBA)**; and
b) the separate Federal Reserve consultation paper to revise the **US GSIB surcharge methodology**, applicable to **Category I** banks.

There is moreover a third consultation paper with targeted revisions to the **standardised approach for Category III and IV** banks.

In this briefing we discuss the first of these consultation papers unless otherwise mentioned, the one on ERBA for Category I and II banks, since it is most relevant for Basel III implementation.

From a Basel perspective, we are only interested in "*large internationally active*" banks that fall into the agreed scope of Basel III. In this context, it is quite instructive to consider how many of the US banks fall into the different categories. This older Library of Congress briefing from 2021 speaks of 5000 banks in the US

in total. Meanwhile, this more recent briefing sets out that among all those US banks, there are 25 US bank holding companies, 12 local intermediate holding companies of foreign banks, and 62 individual banks[5] in the categories I to IV. However, of those, only 8 fall into Category I and one more into Category II.[6] **Hence, the proposed rules referred to as ERBA, which most closely resemble the Basel III framework, are in fact obligatory only for 9 banks, while the banks in categories III and IV may opt in.**

The 2023 "Basel III endgame proposals" were contentious not least because they tried to extend the Basel III implementation to category III and IV banks. The new consultation paper clearly shifts away from that approach. Category III and IV firms will see only **limited changes to the standardized approach** that they are currently subject to. **From a European perspective, the scope of application of the proposed Basel III implementation appears extremely narrow. The immediate question that arises is about Basel III compliance**. Are really only 9 banks large and internationally active and thus inside the scope of the international agreement? What is large is surely in the eye of the beholder and it is certainly regrettable that the Basel Committee itself has not built a consensus on this key aspect of national implementation. In the European Banking Union, banks of more than EUR 30 bn total assets are labelled as significant and directly supervised by the ECB (and, of course, subject to the Basel III implementation). A threshold of 700 bn USD for Category II appears outsized against that background.

The other criterion, international activity, is also subject to a relatively high threshold of USD 75 bn "international exposure" – banks exceeding this threshold are assigned to Category II. In practice, this threshold of 75 bn USD is so high that currently, no bank exceeds it while not also exceeding the 700 bn USD total assets threshold for Category II. At the same time, even international assets of less than 75 bn USD could objectively be considered significant international activity – hence **there might be a gap in Basel III compliance**. Moreover, it occurs to us that having branches or subsidiaries abroad could be viewed as an objective indicator of international activity, and this is relevant for some banks in categories III and IV, such as US Bancorp, American Express, Comerica and Fifth Third.

Further analysis would be needed to understand whether US banks outside categories I and II pose stability risks internationally, or merely domestically, and whether those banks that are internationally active among them might compete at unfair terms, including in specific market segments. In this context, it is also notable that European banks with a US presence fall into categories III and IV but are of course still subject to the Basel III rules applicable to their foreign parent on a consolidated basis. Hence, they might have to compete in the US market with banks subject to a different regulatory framework, but without being able to attain the same economies of scale locally as the largest US banks that are subject to the Basel III implementation.

Regarding Category I and II banks, one overarching structural feature of the new proposals concerns the application of the so-called Collins amendment of the Dodd-Frank Act (see section 171). This legislation, adopted by Congress and imposed on the structure of agency rulemakings regarding capital requirements, currently requires those banks to calculate their capital ratios under both the standardized approach applicable to smaller banks, and under the advanced approaches, which rely on banks' internal credit ratings or risk models. The binding capital requirement for the largest banks is currently the higher of the two. **The March 2026 consultation proposes to replace this dual structure with the new ERBA.** Although the Collins amendment remains in place to date,[7] the authorities propose to disapply the standardized approach for category I and II banks, while the advanced approaches would be entirely removed from the regulatory capital framework as they stand (note, however, that the Basel "fundamental review" version of advanced market risk models forms part of the ERBA).

[5] We assume that some of those individual banks will be subsidiaries of bank holding companies falling into one of those categories, so adding those numbers to gauge the total scope would lead to double counting.

[6] This more recent source from end-2013 repeats the number of 9 banks, so we believe this is rather stable over time.

[7] Intriguingly, the ERBA consultation paper argues that the Collins amendment continues to be complied with since the ERBA can be elected by all banks, thus making it effectively part of the standardised approach.

4. Definition of capital

Basel III (CAP10.6) requires **unrealized gains and losses on available-for-sale securities**, called accumulated other comprehensive income, to be included in core capital. Current US rules require this inclusion only for the banks in Category I and II. The US authorities would probably not consider the treatment of unrealized gains and losses on available-for-sale securities at Category III and IV banks part of their Basel III implementation. Nevertheless, from a prudential perspective, we think it is significant that the consultation paper with targeted revisions to the standardised approach for Category III and IV banks proposes that Category III and IV should begin recognizing unrealized gains and losses on available-for-sale securities, subject to a **five-year phase-in**.[8] Smaller banks below USD 100 bn total assets and those under the community bank leverage ratio (CBLR) framework[9] are however not covered by such a requirement.

It seems a clear step forward that, 3 years after the turmoil around Silicon Valley Bank, US regulators propose to extend the Basel requirement for deducting AOCI losses beyond the largest banks. However, **the merits of a "cliff" in the regulation at USD 100 bn are questionable**. In principle, if banks have sufficient stable funding, they can sit out mark-to-market losses on debt securities and one might thus find deducting those losses from capital unnecessary. That said, for smaller banks below USD 100 bn there is also no generalised stable funding requirement such as the Basel Net Stable Funding Ratio (NSFR). Moreover, the securities in question are specifically designated as available for sale and thus contribute to a liquidity reserve that banks may wish to liquidate under stress. However, if they do, they may well realise those mark-to-market losses, making the hit to their capital unavoidable. We believe this potential dynamic has in fact contributed to the run on Silicon Valley Bank deposits at the time.

The Basel standard defines core capital based on a bank's balance sheet equity, while **requiring the deduction of certain assets which Basel considers weakening the loss-absorbing quality of banks' equity**. Intangible assets, including **Mortgage Servicing Rights** (MSRs), have to be deducted. They are assets that reflect the fair value of income from servicing a portfolio of mortgage loans on behalf of the investor that owns them, typically following a securitisation of the loans. Servicing includes for example collecting borrowers' payments, managing escrow accounts and handling customer relationships, in return for a servicing fee typically expressed as a percentage of the outstanding loan balance. The valuation and risk profile of MSRs are closely linked to the performance of underlying mortgage portfolios and to borrower behaviour. For instance, when mortgages are paid back earlier by borrowers, the MSR loses value accordingly. Given their high risk, under both Basel III and the current US capital framework, MSRs are **deducted from core capital to the extent that they exceed 10% of core capital**. Amounts below this threshold are subject to a **250% risk weight**. The March 2026 proposal would **eliminate the deduction entirely and replace it with a general 250% risk weight, regardless of their size relative to capital**. The three agencies present this as a measure to "*remove a regulatory disincentive for residential mortgage servicing and origination*" (p. 14), in view of the migration of those activities to nonbank firms.

From a prudential perspective, **the non-deduction of MSRs raises a number of concerns**. Indeed, the value of MSRs tends to be procyclical and can decline sharply in stress scenarios (e.g., environments characterised by falling interest rates or increased refinancing activity). In such conditions, the absence of a deduction mechanism may weaken the loss-absorbing capacity of capital ratios, precisely for those large banks that are most exposed. This is compounded by the possibility of fair value measurement of MSRs under US Generally Accepted Accounting Principles (US GAAP, see in particular ASC 860)[10] which allows MSR measurement to increase in rising interest rate environments. We also think that this change might add to a competitive advantage for US banks relative to foreign competitors as US GAAP appears generally more generous in the measurement of MSRs.

[8] Standardised Approach proposal, page 21

[9] The CBLR framework is an optional simplified capital regime for US community banks, under which eligible institutions that maintain a leverage ratio above a specified threshold are deemed to comply with risk-based and leverage capital requirements without calculating risk-weighted assets. On 23 April 2026, the Federal Reserve, together with the FDIC and the OCC, proposed amendments to this framework, including a revision of the calibration and related requirements.

[10] US GAAP are the set of accounting standards governing financial reporting in the US, as established by the Financial Accounting Standards Board (FASB) and codified in the Accounting Standards Codification (ASC).

5. Credit risk

There are two general ramifications with regard to credit risk to bear in mind about the US consultation paper. The first has been mentioned already, namely that there are no advanced approaches other than for market risk. **For credit risk it means that the Internal Ratings Based Approach (IRB) is unavailable.** Moreover, within the Standardised Approach, Basel III provides for two methodologies, one that, where possible, refers to external ratings, and another that does not, in deference to those Basel members that are subject to a statutory ban on external ratings. Since the US authorities are subject to such a ban, **the US proposals follow the Basel version that does not refer to external ratings**.

As to public sector exposures, the US proposals provide several preferential treatments that do not have any correspondence in the Basel rules. First, the US central government and its institutions benefit from a 0% weight, regardless of the exposure's currency. Further, exposures to OECD countries that do not have a Country Risk Classification by the OECD are also 0%-weighted, as are Multilateral Development Banks with US shareholdings. These preferential treatments, in our view, basically try to overcome problems that result from shunning risk weights based on external ratings and probably do not lead to a particular advantage compared to banks from other countries that do allow external ratings for risk weighting. For the same reason, the US also has a treatment of exposures to Public Sector Entities (PSEs) that does not appear in Basel III. Exposures to US PSEs receive risk weights of 20 or 50%[11], and senior exposures to Government Sponsored Entities, entities akin to certain public banks, are always assigned 20%.[12] Exposures to non-US PSEs are subject to risk weights derived from, but higher than, those for their local sovereign.

In the **retail portfolio**, we see **two differences of probably lesser materiality**. First, we do not see a granularity criterion relative to portfolio size in the US text, which is probably without material impact given the size of US banks subject to the proposal. That said, banks opting into Basel III implementation scope might have small retail portfolios – which, however, from a Basel perspective can only be a problem if those banks form part of the mandatory "large internationally active bank" scope of Basel application. Second, Basel gives a preferential risk weight for exposures to so-called transactors that have credit limits but do not utilise them as such. In our reading, Basel ties the notion of "transactor" to the behaviour of the obligor who either is or is not a "transactor" for all his credit facilities, whereas the US proposals seem to imply that a given obligor may be treated as "transactor" for some exposures, and as a normal retail obligor for other credit facilities that he does use.

A more material departure surfaces in the corporate exposure class. While the default risk weight of 100% is the same, the US proposals seek to materially expand the scope of application of the preferential 65% risk weight, which Basel reserves for internally investment grade rated corporates that have exchange-listed securities outstanding. Namely, the US proposals drop the requirement for listed securities. While exchange listings are more widespread among US than among EU corporates, we believe that there must still be large numbers of exposures benefitting from this deviation. While this is a clear and material departure from the Basel agreement, it is still unlikely to lead to a major competitive advantage for US banks, since it seems primarily to undo some of the self-harm inflicted by neither implementing the Internal Ratings Based Approach nor allowing external ratings in the Standardised Approach. From a prudential perspective, the US proposals are still unconvincing on this point. Basically, they turn the Standardised Approach of Basel into a kind of **"poor man's Internal Ratings Based Approach"** by allowing a strong influence of internal investment-grade assessments into the calculation without, however, any of the strong requirements for internal implementation and supervisory approval that are part of the "real" Internal Ratings Based Approach. In fairness, we observe that the US authorities seem conscious of this issue and have added some limited qualitative standards for internal investment-grade assessments that are not in the Basel text.

The impact of the above deviation might be further mitigated by the **absence of an SME category** in the US proposals. Basel offers a "middle ground" for SME exposures at 85% – whereas SME exposures presumably, absent listed securities, rarely qualify for a 65% risk weight in Basel. In the US, such exposures would land

[11] In function of the resources from which the debt is repaid; general obligations are treated more favourably than those to be repaid from specific revenue streams.

[12] Subordinated exposures to those entities receive risk weights of 20% or 150%:

either, as discussed above, at 65% or 100%. A further simplification that is disadvantageous to banks when compared to Basel III is the absence of a preferential category for "high quality" project finance exposures in operation, which meet a set of conditions aimed at reducing default risk and are risk-weighted at 80%.

When it comes to risk-weighting **loans secured on real estate**, Basel offers two standardised possibilities. One is called whole loan approach and requires that each loan receives a single risk weight from a look-up table depending on the loans volume divided by the property value securing it (loan-to-value ratio). The US proposal only provide for this approach and does not adopt the more differentiated alternative in the Basel framework that assigns different risk weights to different notional tranches of a loan, depending on which loan-to-value bucket of a separate look-up table they fall into. Basel III distinguishes loans that do and those that do not materially depend on cash flows from the property. The US proposal follows this distinction but operationalises it in a somewhat simplified way through a test of whether the bank at origination took such cash flows into account in its lending decision. While pragmatic, we wonder if this approach is true to the intention of Basel, since the latter would in our understanding require a reclassification if cash-flow dependence arises during the life of the loan.

For equity exposures, the US proposals offer a whole range of preferential treatments absent from Basel III. The potential materiality of these departures from Basel results mainly from the high equity risk weights in Basel from 250 to 1250%. Among the preferential treatments, the possibility to treat a part of a bank's equity exposures, up to 10% of the bank's capital as "non-significant" and risk weight it at just 100%, stands out, but there are also other categories that benefit from risk weights ranging from 0% to 100%. Intriguingly, other equity exposures however are subject to a harsher treatment than in Basel III; the Basel default of 250% is for instance increased to 300% and only available for listed equity, while all non-listed equity, rather than just "speculative" holdings as in Basel, are weighted at 400%. Then again, the 1250% risk weight for significant shareholdings in commercial entities exceeding 15% of the bank's capital is absent from the US proposals. As an aside, it is worth noting that the category of 250% risk-weighted significant equity holdings in financial institutions that are not deducted from capital may have a broader applicability than in Basel, where more exposures are subject to the threshold deduction approach and hence banks may reach the threshold for deduction earlier.

Finally, there are **small adjustments here and there that in total do not appear to constitute a material departure**. For instance, exposures to banks can receive a preferential risk weight if the borrowing bank is well capitalised by Basel standards. Since the US does not apply Basel standards to all banks, they allow the preferential treatment for exposures to local banks that are well capitalised by local standards. Exposures to non-retail businesses that the bank considers qualifying as investment grade benefit from a 65% risk weight even when they do not have, as Basel requires, listed securities. On the other hand, the preferential 85% risk weight that Basel provides for non-retail SME loans is missing from the US consultation paper, as is the preferential 80% risk weight for high quality project finance in operation.

6. Credit risk mitigation

Basel III provides rules and eligibility standards according to which credit risk mitigation techniques are allowed to reduce risk weights for credit risk. In this regard, Basel offers banks under the Internal Ratings Based Approach more flexibility than those under the Standardised Approach since they are subject to more stringent risk management standards and need to obtain supervisory approval. The US proposals, as noted already, force all banks into what corresponds to Basel's Standardised Approach. Moreover, within the Standardised Approach, and specifically for credit risk mitigation, they further confine banks to only use the so-called Simple Approach, **making the more risk-sensitive Comprehensive Approach unavailable** (oddly with the exception of repo-style transactions and margin lending, where something called collateral haircut approach is available and closely resembles Basel's Comprehensive Approach).

Now, the US consultation paper version of Basel's Simple Approach however entails **some differences from the Basel framework that arguably try to compensate US banks somewhat for the lost flexibility and risk sensitivity**. For instance, guarantors can be recognised under the US proposals when they are

considered investment grade based on the bank's internal assessment of their unsecured debt, whereas the international standard requires the guarantor to have listed securities outstanding. In a similar spirit, the US Simple Approach for collateral allows maturity mismatches unlike Basel and borrows a formula for maturity adjustments from Basel's more sophisticated Comprehensive Approach. Also, the treatment for currency mismatches is imported from the Comprehensive into the consultation paper's Simple Approach. Finally, as to eligible financial collateral, the US proposals lower the bar somewhat relative to Basel regarding debt issued by banks and other investment grade securities but are slightly more restrictive for securitisation debt.

7. Counterparty risk

This section deals with the calculation of exposure values underlying the credit risk capital requirements for counterparty default in derivatives and certain securities financing transactions. Also in this area, **the US proposals omit the more sophisticated approaches** of Basel III and require the use of standardised ones – which are different for derivatives and for securities financing transactions. While the standardised methods are cheaper to implement, **this restriction *per se* also entails some disadvantages for US banks** since the standardised methods are cruder and calibrated with some additional conservatism. The US proposals try to alleviate that, sacrificing some of the conservatism of the Basel framework.

First, the most sophisticated method in the Basel framework allows banks to net exposures to a single counterparty off across broad categories of products – which, under Basel III standardised methods, are subject to separate methodologies. Here, **the US proposals allow banks to incorporate securities financing into the standardised method that Basel reserves for derivatives**, subject to some precautions. The result is a crude recognition of cross-product netting that is not allowed in Basel under the standardised methods.

Second, for derivatives under the standardised approach, Basel III augments the current exposure to a given counterparty by an amount that represents the risk of the exposure increasing due to market value changes in the future. On top, Basel applies a simple scalar called alpha, set at 1.4. The US proposals reduce this alpha to 1.0 for transactions with "commercial end users" of derivatives (say, an airline entering derivatives with a bank to hedge fuel prices). While probably not massively impacting overall capital requirements of US banks, **the specific capital requirements in question are reduced by about 30%,** and we do think this deviation, considered in isolation, provides US banks with a tangible advantage when dealing with such commercial end users.

Overall, however, we tend to think that the concessions made in the US proposals probably do not fully outweigh the inconvenience of the unavailability of more sophisticated methods – at least not for those banks that are willing and able to make the necessary investments into risk management and measurement. However, from a prudential perspective, **the method of prescribing simple approaches and then making ad-hoc adjustments to reduce their purposefully built-in conservativeness bears risk**.

8. Securitisation risk

For calculating securitisation capital requirements, the Basel III framework entails a hierarchy of different approaches of decreasing risk sensitivity and sophisticated input parameters. The overarching choices of the US framework – neither implementing the Internal Ratings Based Approach nor external credit ratings – mean that none of the more sophisticated input parameters are available to US banks. Hence, the **US proposals only implement the simplest of the Basel approaches**, the Securitisation Standardised Approach ("SEC-SA").

We recall that **the Basel Committee had already released a new framework for securitisation capital requirements in 2014**, which forms part of Basel III but was due for application already in January 2018. Not least since the Great Financial Crisis was ignited by problems in US securitisations, that framework came with markedly higher capital requirements. However, still today, the US remain on a framework predating

this reform and delivering much lower capital requirements for securitisation. Meanwhile, globally, banks have been applying the higher requirements already, which may have somewhat mitigated securitisation activity outside the US.

The Basel III securitisation framework entails a parameter labelled "p" that does two things at a time. For one, it distributes the (hypothetical) overall capital requirement for all tranches of a given securitisation across the different tranches, where a higher value of "p" means that more of the requirements are allocated to the more senior, lower risk tranches of a securitisation. Moreover, "p" also determines how much higher the (hypothetical) capital requirement for all tranches together would be when compared to the capital requirement that is calculated for the credit risk of the underlying loans of the securitisation. A value of "p" set at one in principle doubles the capital requirement for the underlying loans.

In the most sophisticated approach of the Basel framework, "p" is a function of different properties of the securitisation, and in particular, higher values of "p" result in more capital being allocated to senior tranches the more default risk the underlying loans of the securitisation have on average. By contrast, the simpler SEC-SA implemented in the US requires **fixed values of "p", namely 1.0 by default**, 0.5 for so-called STC or Simple, Transparent and Comparable securitisations that meet a set of criteria following the same spirit, but simpler than the European STS criteria, and 1.5 for re-securitisations, where the underlying assets of a securitisation are themselves securitisation exposures.

The current US proposals, however, assign a uniform "p" of 0.5 to all securitisations that are not re-securitisations, thereby **cutting the securitisation-specific surcharge capital requirement of the Basel framework by half**. The consultation paper itself does not provide a motivation for this. We think this likely reflects **a desire to avoid any negative impact on the US securitisation market**. Namely, the current US securitisation framework has a built-in equivalent of a 0.5 "p"-factor, so that the change to the consultation paper's "Basel III implementation" remains neutral in this respect. From a prudential perspective, the deviation raises two concerns. First, it eliminates any incentives to embrace or to stick to quality standards in securitisation since capital requirements would not distinguish between STC and non-STC securitisation. Second, since the Basel III framework in principle designed "p" to increase with risk as it does in the more sophisticated approach, fixing it in a standardised approach at a markedly lower level **simplifies the framework at the price of eroding its prudence**. The more sophisticated Basel III approach allows the "p" to be as low as 0.3 for the least risky transactions, but as risk increases, "p" would quickly exceed a standardised parameter of 0.5. For the same reason, from a competitiveness perspective, **banks under the full Basel III framework will, under most circumstances, be at a disadvantage** compared to US banks. Moreover, they are unlikely to benefit from the preferential STC calibration when doing business in the US if the US does not implement the framework and does not seek to incentivise its use.

9. Operational risk

Before turning to the US proposals, it is useful to briefly recall the Basel framework for operational risk. The starting point is the **Business Indicator** (BI), which serves as a proxy for the overall scale of a bank's activities. The BI is then translated into a **Business Indicator Component** (BIC), which increases progressively with size according to a predefined schedule (see Table 2). Capital requirements are obtained by applying the **Internal Loss Multiplier** (ILM) to the BIC. In the Basel standard, the ILM depends on the ratio between the **Loss Component** (LC) and the BIC, where the LC is defined as 15 times the average annual operational losses over a 10-year period. In this way, the framework combines a size-based measure (BI/BIC) with a loss-based adjustment (LC/ILM), so that banks with similar scale may face different capital requirements depending on their historical loss experience.

Table 2: Business indicator component by Business indicator range (in USD)

Business indicator (BI) range	Business indicator component (BIC)
less than 1 billion	0.12 x BI
1 billion to 30 billion	120 million + 0.15 x (BI–1 billion)
more than 30 billion	4.47 billion + 0.18 x (BI–30 billion)

Source: Proposal on Regulatory Capital Rule (p. 15014)

While the framework set out in the US proposal is broadly similar to the Basel standard, it departs from it in a number of important respects.

The first relevant difference is that **under the Basel standard, the BI is composed of three distinct elements**: (i) an interest, lease and dividend component, (ii) a services component, and (iii) a financial component, each defined separately and entering the calculation largely on a gross basis. By contrast, **the US proposal collapses the latter two into a single non-interest component** – an interest, lease and dividend component and a non-interest component. In doing so, it combines income and expenses within a single aggregate, moving from predominantly gross-based to a more net-based construction of BI.[13] This reduces not only granularity but also implies that different income and expenses across different sources offset each other, leading to generally lower capital requirements.

A second key deviation concerns the **treatment of operational losses within this revised accounting construction**. As described above, the netting of income and expenses reduces the BI relative to the Basel framework. This effect is however somewhat reduced because the US proposals require adding total operational losses to the non-interest component.[14] In other words, they seem to try to **avoid that accounting expenses resulting from operational losses reduce net non-interest income** as it enters the BI. The Basel framework by contrast does not separately consider expenses resulting from operational losses; we think they mostly enter the calculation through the accounting item of other operating expenses, which enters the Basel BI as an absolute value when (and only when) it is larger than other operating income. Otherwise, the Basel framework clearly distinguishes the accounting-based measure of bank scale as one driver of the capital requirement from loss experience as a second driver. Relative to Basel, we therefore feel that the proposed US approach **weakens the separation between scale (BI) and risk experience (LC/ILM)** as drivers for operational risk capital requirements and thus reduces transparency, as the interaction between accounting aggregates and prudential loss measures is not fully transparent. In addition, it may blur the interpretation of the BI itself, as movements in the indicator may reflect not only changes in the scale of activities, but also variations in cost structures, efficiency, or realised losses, making comparisons across institutions more difficult.

A third major departure concerns the **treatment of certain fee-based activities**. Within this redesigned structure, the proposal introduces a 70% reduction of the contribution of a broad set of fee income streams – investment management, investment services and non-lending treasury services – to the non-interest component of the BI. The text defines these activities broadly: "Investment management" includes asset management, wealth management and private banking; "investment services" includes custody, fund services, securities lending, collateral management, corporate trust and clearing-related activities; and "non-lending treasury services" includes cash management, global payments and deposit services,

[13] Both components are to be calculated as rolling three-year averages, as are the respective components in the Basel framework.

[14] The proposals indicate that operational losses are to be excluded from the definition of noninterest expenses used in the calculation of the BI. This seems to imply that operational losses do not reduce the net aggregate income within the BI (hence having to be added back to accounting net operating income) and are in addition added separately as a positive amount. We believe this is a mistake in the drafting; the objective is probably to avoid that operational losses reduce the BI, but not that they are counted twice.

excluding lending and card activities. The three agencies justify this approach by **empirical and conceptual considerations**. First, they argue that certain fee-based activities have historically generated lower operational losses relative to income and therefore should not contribute proportionally to capital requirements. Second, they emphasise that a more differentiated treatment within the BI improves the alignment between the indicator and the underlying risk profile of different business models. However, this approach raises also several issues. It **alters the role of the BI from a pure size indicator** to a transformed measure that embeds supervisory judgments about the relative riskiness of specific activities, departing from the Basel design, where risk differentiation occurs through the ILM. The empirical justification may also be more fragile than suggested, as **historical loss patterns** – particularly for operational risk, characterised by low-frequency / high-severity events – **may not reliably capture future risks**, especially in areas such as asset management, custody or payment services that are increasingly exposed to cyber and outsourcing risks. In addition, incorporating such adjustments directly into the BI **reduces transparency** and makes it more difficult to disentangle whether changes in capital requirements reflect shifts in business volume or embedded regulatory judgments. It may also affect comparability across banks, as institutions with similar overall scale but different business models could generate systematically different BI levels and hence capital requirements, independently of their realised loss experience.

The fourth divergence concerns the **role of historical losses**. In the US consultation, the agencies explicitly question whether the ILM should be retained (see question 84 p. 15010), and note that setting it equal to one could be viewed as consistent with the Basel framework (see p. 15126, footnote 647). This claim reflects the fact that the Basel Committee allows a degree of implementation flexibility, and, in practice, the ILM can take a value close to one for banks whose loss experience is broadly aligned with the size-based proxy. Moreover, in specific cases (e.g. where loss data are not available or deemed insufficient), supervisors may rely on simplified approaches that effectively neutralise the ILM. The agencies justify this approach by drawing extensively on these caveats embedded in the Basel framework. First, they highlight **potential weaknesses in the quality, consistency and comparability of internal loss data**, especially across institutions with different reporting practices, thresholds for loss recognition, and historical data availability. Second, they emphasise the low-frequency / high-severity nature of operational risk events, arguing that loss data may be sparse and dominated by a small number of extreme observations, making them a noisy and potentially unstable predictor of future risk. Third, they express concerns about procyclicality and excessive volatility in capital requirements, which could arise if large loss events were directly and mechanically incorporated into the capital calculation, leading to sharp increases in capital following rare but significant incidents. However, neutralising the ILM may also have important (dis)incentive effects. Under the Basel framework, lower realised losses – whether reflecting stronger internal controls, governance, or risk management – can translate into lower capital requirements over time. By contrast, if the ILM is fixed at one, improvements in loss performance would no longer be reflected in capital, weakening incentives for banks to invest in loss data collection, internal controls, and operational risk management frameworks more broadly.

It should be noted that **other jurisdictions have taken a similar approach**. In the EU, the CRR effectively neutralises the ILM[15], while in the UK the Bank of England used similar arguments to the ones put forward by US agencies[16], and underlined that a better assessment of operational risk can be achieved through supervisory tools, such as Pillar 2[17].

Although the US is not the only jurisdiction to neutralise the ILM, this position needs to be assessed in conjunction with the other design choices discussed above. In this way, the framework becomes largely

[15] The CRR does not provide a detailed justification for this choice. Recital 46 of CRR3 states that, "*to ensure a level playing field within the Union and to simplify the calculation of own funds requirements for operational risk, that discretion should be exercised in a harmonised manner […] by disregarding historical operational loss data for all institutions*."

[16] The BoE argues that since operational risk is characterised by low-frequency/high-severity events and a paucity of data, past losses are often weak predictors of future outcomes. It also highlights that the use of a ten-year window of unweighted losses may cause capital requirements to be unduly influenced by large but potentially outdated events.

[17] This contrasts with the EBA assessment, according to which past operational losses retain predictive value for future exposure, and with the indication that including losses in Pillar 1 strengthens incentive for data quality, risk management and Internal Capital Adequacy Assessment Process (ICAAP) integration.

embedded ex-ante in the construction of the size proxy, thereby dampening overall responsiveness to differences in banks' operational risk profiles more than in other jurisdictions.

10. Market risk

The market risk framework is the only area of the US proposals that remains true to the Basel logic of combining standardised measurement as a default with the possibility to use banks' internal risk measurement, subject to supervisory approval. **Quite oddly, though, the US proposals envisage using the Standardised Approach as a cap, rather than as a floor, for the capital requirements derived from internal risk models.** In principle, we would assume well-working internal models that have received supervisory approval to be more sensitive to the risk of a specific trading desk than a standardised approach. The US proposals, however, let the bank use the standardised measure when it is lower, following case-by-case supervisory approval. Effectively, supervisors thus might give a vote of no-confidence against their own models' approval and the whole logic of a prudent standardised floor is turned upside down. This looks like cherry-picking that can lead to imprudent capital requirements for high-risk trading desks and competitive distortions at the same time, although the magnitude of this concern is impossible to establish since it is the function of very bank-specific circumstances and supervisory decisions.

It is worthwhile to observe that the new FRTB rules would apply to all banks that have to calculate market risk capital requirements, so **the proposals discontinue the current, pre-FRTB market risk measurement** and make the new market risk rules mandatory also for banks other than those in categories I and II. This is a prudent decision since those old market risk rules are clearly outdated. That said, the US authorities propose a **particularly generous de minimis exemption** to the effect that banks with less than USD 5 bn in trading activity are fully exempt from the complex market risk requirements – the comparable, more prudent threshold in the EU sits at EUR 50 million.

The US proposals differ from Basel III in the calculation of the overall capital requirement. The standardised floor aside, Basel III adds the models-based requirement for the trading desks for which it is allowed and the standardised approach capital requirements for the other desks. The US proposals, by contrast, add to the models-based requirement the difference between a standardised calculation for all desks and the standardised requirement for model eligible desks, **which grants the bank additional diversification benefits across all desks that Basel does not recognise**. In a way, one might argue that the US calculation is more sophisticated on this point, but it also grants a US bank a benefit not envisaged in the Basel framework. In a similar vein, the **US proposal also modifies the capital treatment of non-modellable risk factors** at models-eligible trading desks. Those risk factors are subject to individual stress capital charges, which the US authorities propose to aggregate, allowing more diversification benefits than under the Basel standard — and in a more granular way, by distinguishing between two categories of risk factors with different correlation parameters applied to each.

Finally, a temporary deviation is worth mentioning. An innovation of Basel III is profit-and-loss attribution, where the bank has to test on an ongoing basis how well its market risk model explains the daily profits and losses at trading desks. In Basel, weaknesses in this regard lead to automatic add-ons to capital requirements from day one. **The US consultation paper by contrast does not envisage automatic add-ons during the first three years.** The resulting capital relief will vary from one bank to the other and obviously benefits banks with weaker models more. It seems critical to accompany the capital relief with supervisory focus on models' improvements, and to ensure that the relief is not perpetuated beyond the intended three-year horizon.

11. Credit Valuation Adjustment (CVA) risk

For background, this section deals with capital requirements for the risk of market value changes due to changes in counterparty default risk in banks' derivatives portfolios. Basel requires capital for this risk basically for all derivatives transactions and for material securities financing transactions other than those

that are centrally cleared. The US proposals allow a **general exemption for "client facing transactions"**, which we understand to be similar to the exemption in Art. 382(3) CRR for "*client's transactions with a clearing member, when the clearing member is acting as an intermediary between the client and a qualifying central counterparty and the transactions give rise to a trade exposure of the clearing member to the qualifying central counterparty*". **However, the US authorities do not propose a broader exemption for non-financial counterparties as there is in Art. 382(4) CRR, which is a key difference with the Basel framework in the EU implementation.** As to securities financing transactions, the US proposals require no CVA capital whatsoever. This is an intriguing simplification of the materiality test in Basel, for which the CRR requires a Regulatory Technical Standard to implement it; the US authorities reason in the consultation paper that CVA of securities financing transactions does not lead to accounting losses. As an aside, we note that the US proposals entail a scaling factor in the CVA risk formula to ensure that the preferential treatment for commercial end users in the counterparty risk section (see above) does not result in an additional reduction in the CVA risk section.

12. GSIB surcharge proposal

In parallel with the consultation paper on capital requirements for Category I and II banks, the Federal Reserve Board has also issued consultation paper revising the US framework for risk-based capital surcharges applicable to global systemically important bank holding companies (G-SIBs, also known as Category I banks)[18] as well as the measurement and reporting of the systemic indicators that feed into that calculation. The stated objective is to **improve the measurement of systemic risk** and to **better align surcharges with the systemic risk profile of individual banks**.

Before outlining the proposed changes, it is useful to briefly recall both the Basel Committee's methodology and the current US framework. The Basel framework relies on a **single indicator-based approach** designed to assess systemic importance on a relative and internationally comparable basis. It is **structured around five equally weighted categories** – size, interconnectedness, substitutability, complexity and cross-jurisdictional activity – each composed of specific indicators[19]. For each indicator, a bank's individual exposure is divided by the corresponding aggregate global amount, ensuring that scores reflect the institution's systemic footprint relative to the global banking system rather than in absolute terms. The weighted indicators are then aggregated into an overall score, expressed in basis points, which determines the bank's allocation to a G-SIB bucket. Each bucket is associated with a corresponding capital surcharge that increases in discrete steps as systemic importance rises (see Table 3).

Table 3: Bucketing approach

Bucket	Score range	Higher loss absorbency requirement*
5	530–629	3.5%
4	430–529	2.5%
3	330–429	2.0%
2	230–329	1.5%
1	130–229	1.0%

Source: Basel standard, p. 11
**common equity as percentage of RWA*

The US GSIB surcharge framework has been assessed by the Basel Committee as compliant with the Basel standard, with the Committee explicitly noting that certain elements of the U.S. approach are **more conservative than the Basel framework**, including the use of an alternative assessment methodology that generally results in higher capital requirements. This is so because **the current US framework combines**

[18] Unlike the broader capital proposals issued jointly by the FED, the OCC and the FDIC, this proposal is a FED proposal only, as the GSIB surcharge framework for US bank holding companies falls within the Board's Regulation Q. Its policy relevance, however, should be assessed together with the wider US reassessment of large-bank prudential requirements, since the proposed amendments would affect the capital stack of the largest US banking groups and interact with other elements of the US post-crisis framework.

[19] For a detailed description of the indicators and their composition, see the Basel standard, in particular Table 1 (p. 5).

Basel's methodology, which it refers to as Method 1, with an additional, domestically defined approach. Once a bank is identified as a GSIB, it must also calculate a so-called Method 2 score. This Method 2 was designed to make the surcharge more responsive to features that the US authorities considered particularly relevant for domestic financial stability. It relies on similar underlying dimensions of systemic risk as Method 1 (i.e. the Basel method), but it replaces the substitutability category with a measure of reliance on short-term wholesale funding[20] and uses fixed (rather than globally normalised) coefficients for most indicators. The **applicable surcharge is then determined as the higher of the outcomes generated by the two methods**.

The changes proposed now chiefly affect the US-specific Method 2. The Board's quantitative assessment indicates that the proposal would lead to a **moderate reduction in capital requirements**. Specifically, GSIB surcharges are estimated to decline by about **40 basis points on average** relative to the baseline, corresponding to an approximate USD 23 billion reduction (around 10 percent) in the aggregate dollar amount of surcharges. This effect reflects the combined impact of the various elements of the proposal, with reductions in Method 2 scores – driven in particular by the recalibration of coefficients – more than offsetting increases stemming from data averaging and other improvements in risk measurement. Importantly, the changes would not affect Method 1 surcharges, and the overall adjustment would be entirely driven by Method 2. As a result, **Method 1 would become binding for 2 out of 8 GSIBs**, whereas Method 2 is binding for all GSIBs under the current framework. **Accordingly, overall, the changes somewhat reduce the additional conservatism of the US GSIB surcharge framework when compared to the Basel standard.**

A central – and probably most important – element of the new US proposal concerns the **fixed coefficients used in Method 2**. These coefficients were calibrated using historical global indicator amounts from 2012 and 2013 and have remained fixed since the introduction of the US GSIB surcharge framework. The Board now argues that this design may cause Method 2 scores to increase over time for reasons that do not necessarily reflect an increase in systemic risk. In particular, inflation, real economic growth or broader balance-sheet expansion can mechanically raise systemic indicators even where the relative systemic footprint of a bank has not increased. The proposal therefore introduces a **one-time downward adjustment** of the Method 2 coefficients by a factor of 1.2, combined with an **annual indexing mechanism** based on nominal US GDP growth going forward. The proposed one-off adjustment factor is calibrated based on the observed divergence between Method 1 and Method 2 scores in recent years: between end-2019 and end-2024, aggregate Method 2 scores for US GSIBs increased by around 18 percent, while Method 1 scores remained broadly stable or slightly declined, resulting in a cumulative gap of roughly 20%. However, attributing this divergence to macroeconomic factors is not unambiguous. It may reflect a combination of macroeconomic effects and genuine changes in the systemic footprint of large US banks. For example, an increase in a bank's reliance on short-term wholesale funding (e.g. repo markets or brokered deposits) would directly raise Method 2 scores, while having no direct impact on Method 1, which does not include funding structure among its indicators. In the absence of such granular decomposition, the uniform rescaling may therefore correct for macroeconomic drift but also offset increases that are risk-based, potentially reducing GSIB surcharges beyond what would be justified by underlying risk developments.

The second major element concerns **short-term wholesale funding**. Under the current US Method 2, the short-term wholesale funding score is calculated as a ratio: weighted short-term wholesale funding divided by average risk-weighted assets (RWA), multiplied by a fixed factor. The proposal would remove the RWA denominator and measure short-term wholesale funding as an absolute amount multiplied by a coefficient. The Board argues that **the current ratio-based approach can produce counterintuitive results**: a firm with the same amount of short-term wholesale funding but higher risk-weighted assets can receive a lower score, even though the absolute volume of potentially unstable funding is unchanged; conversely, a fall in risk-weighted assets can mechanically increase the score even if short-term wholesale funding is stable. Moreover, the Board explains that the original intention in 2015 was also for short-term wholesale funding to account for around 20 percent of aggregate Method 2 scores, but in practice it has represented closer to

[20] The rationale appears to be that heavy reliance on unstable short-term market funding can amplify stress through fire sales, margin calls, forced deleveraging and liquidity spirals, especially where the institution concerned is large and interconnected.

30 percent. This modification could be seen as a way to restore the original calibration and underlying logic of the framework.

A third element of the proposal concerns the **use of average values for systemic indicators**. Under the current US framework, several FR Y-15[21] indicators are measured at a single point in time, typically year-end. The proposal would instead require certain indicators to be calculated as averages of daily or monthly values over the year. This change is intended to address a key limitation of point-in-time measurement, which can create **incentives for banks to manage the level of their systemic indicators around reporting dates to reduce their GSIB surcharge**. Average measurement is more likely to capture the bank's actual systemic presence throughout the year and reduces incentives for short-lived transactions that may lower reported indicators without reducing underlying systemic risk. It should be recalled that the Basel G-SIB framework (reflected in Method 1 in the US context) also relies on year-end data. However, its very design (in particular, the use of global aggregate denominators and the reliance on large and persistent stock variables) tends to **reduce the scope for window dressing** and limit the sensitivity of the framework to temporary balance-sheet adjustments, so that Method 1 already approximates a measure of systemic importance over time, even without requiring averaging. By contrast, these mitigating features are largely absent under Method 2. In this respect, the proposal creates a difference with the Basel standard: since the proposed change would apply to the data used in the calculation of both Method 1 and Method 2 scores, it would affect both methodologies, although its impact is likely to be more pronounced under Method 2. The Board's own impact analysis suggests that data averaging would tend to increase some GSIB scores, particularly for indicators – such as OTC derivatives – that are more prone to year-end reductions.

A fourth element concerns **cliff effects**. Under the existing US surcharge schedule, relatively small changes in a GSIB score can move a bank out of a surcharge bucket and lead to a discrete increase/decrease in its capital requirement. The proposal would narrow the width of Method 2 score bands from 100 to 20 basis points, thereby increasing the granularity of the surcharge schedule. This implies a larger number of score bands, each associated with more finely differentiated surcharge levels (0.1% increments instead of 0.5%), thereby reducing the size of discrete jumps in capital requirements at bucket thresholds. The Board estimates that the effect of narrower score bands would be **close to zero on average over time**, because it can either slightly increase or slightly decrease the surcharge depending on where a firm sits relative to the new band boundaries.

The proposal also includes **several amendments to the definition of the underlying systemic indicators**, including changes related to interconnectedness, derivatives, securities outstanding, trading volume, payments activity, cross-jurisdictional derivatives and other cross-border activity measures. Some of these changes are intended to improve consistency with the international standard.

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This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

[21] The FR Y-15 (Systemic Risk Report) is a regulatory reporting template used by the FED to collect harmonised data on large US banks. It includes a set of quantitative indicators (e.g., size, interconnectedness, complexity and cross-jurisdictional activity) used to assess systemic importance and to compute GSIB scores under both Method 1 and Method 2.