

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: March 19, 2026
To: Board of Governors
From: Staff¹
Subject: Basel III proposal, GSIB surcharge proposal, and standardized approach proposal

ACTIONS REQUESTED: Approval to publish for public comment in the Federal Register: (1) a proposal that would revise the risk-based capital framework applicable to the largest, most internationally active firms and to firms with significant trading activity (Basel III proposal); (2) a proposal that would revise the calculation of the capital add-on for global systemically important banking organizations (GSIB surcharge proposal); (3) a proposal that would modify the U.S. standardized approach in the capital rule (standardized approach proposal); and (4) a description of the impact of the Basel III and standardized approach proposals on certain information collection requirements under the Paperwork Reduction Act (PRA).² Staff also request authority to make technical, non-substantive changes to the attached materials prior to publication in the Federal Register. The Basel III proposal, the standardized approach proposal, and the PRA notice would be issued jointly by the Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The GSIB surcharge proposal would be issued by the Board alone.

EXECUTIVE SUMMARY

¹ Mary Aiken, Norah Barger, Francisco Covas, Anna Lee Hewko, David Lynch, Brian Chernoff, Michael Pykhtin, Missaka Nuwan Warusawitharana, Andrew Willis, Christopher Anderson, Mehdi Beyhaghi, Cecily Boggs, Lesley Chao, Benjamin Dennis, Akos Horvath, Diana Iercosan, Hulusi Inanoglu, Alex Jiron, Benjamin Kay, Dennis Mawhirter, David McArthur, Marco Migueis, Ben Ranish, Ke Wang, Nadya Zeltser, Lars Arnesen, James Caldera, Victoria Maizenberg, Jennifer McClean, Matthew McQueeney, Nathan Palmer, Vikram Ramnarain, Michael Suher, Michelle Zhu, Yannis Cabossioras, Jake Clark, Emily Davine, Sarah Dunning, Abigail Roberts, Shooka Saket, and Nina Mattu (Division of Supervision and Regulation); Mark Van Der Weide, Reena Sahni, Jay Schwarz, Mark Buresh, Gillian Burgess, Jonah Kind, Jasmin Keskinen, Ryan Rossner, Isabel Echarte, and Harley Moyer (Legal Division).

² The GSIB surcharge proposal would include a description of the PRA impact related to that proposal and would include amendments to the Systemic Risk Report (FR Y-15) to implement that proposal. Changes to other regulatory reports are expected to be proposed separately.

- The proposals would modernize the Board’s capital requirements by improving their risk sensitivity and reducing burden, while retaining their robustness. They would modify two of the four pillars of the Board’s regulatory capital framework for large banks: the Basel III framework and the GSIB surcharge.³ They would also make changes to the risk-based capital framework that would be applicable to other banks (standardized approach), tailored to the simple structure of that approach.⁴
- This streamlined framework would enhance firms’ ability to provide financial services while maintaining the banking system’s safety and soundness.
- The Basel III proposal would revise the risk-based capital requirements that apply to the largest, most internationally active firms (Category I and II firms) to:
 - Substantially simplify the framework by subjecting firms to a single set of risk-based capital calculations;
 - Better align minimum requirements with risk, including by (a) considering additional credit risk factors; (b) ensuring operational risk requirements appropriately reflect business activities, including investment management and custody services; and (c) better measuring market risk, properly accounting for diversification and facilitating firms’ use of robust internal models; and
 - Consider overlaps with the stress capital buffer requirement, particularly in the case of operational risk and trading activities.
- The GSIB surcharge proposal would improve the measurement of systemic risk in the framework which determines the surcharge that applies to the largest and most complex banks.

³ The other two pillars of the Board’s regulatory capital framework for large banks are the stress capital buffer and the supplementary leverage ratio. The Board proposed enhancements to the stress tests that inform the stress capital buffer on October 24, 2025 (see <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251024a.htm>) and finalized reform of the supplementary leverage ratio on November 25, 2025 (see <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125b.htm>).

⁴ The standardized approach currently applies to all banking organizations subject to risk-based capital requirements. Under the proposals, it would not apply to banking organizations that apply the Basel III framework.

- The standardized approach proposal would revise the U.S. standardized approach, which applies to most banks, to better align capital requirements with the risk of traditional lending activities.
- Both the Basel III and the standardized approach proposals would increase banks' incentive to engage in mortgage origination and servicing by increasing the risk-sensitivity of requirements associated with residential mortgages, including by removing the capital deduction for certain mortgage servicing assets.
- The aggregate common equity tier 1 capital requirements of Category I and II firms would decrease by 2.4 percent under the proposals (a 1.4 percent increase due to the Basel III proposal and a 3.8 percent decrease due to the GSIB surcharge proposal).
- The cumulative impact of all proposals on risk-based capital requirements – including proposed stress testing changes – would lower the common equity tier 1 capital requirements of Category I and II firms by 4.8 percent.⁵
 - In large part, estimated reductions connected to the stress testing proposal would reflect changes to the modeling of operational and market risks that account for overlaps with the Basel III proposal.
- The standardized approach proposal would decrease the aggregate common equity tier 1 capital requirements of Category III and IV firms by 3.0 percent and of smaller banking organizations by 7.8 percent.

⁵ A firm must maintain capital ratios above the sum of its minimum requirements and buffer requirements to avoid restrictions on capital distributions and discretionary bonus payments.

Table 1 – Cumulative Change in Aggregate CET 1 Capital Requirements

	Category I and II firms	Category III and IV firms	Smaller banking organizations
Basel III NPR	+1.4%		
GSIB Surcharge NPR	-3.8%		
Revised Standardized Approach		-6.1%	-7.8%
AOCI Requirement		+3.1%	
Proposed Stress Test Changes	-4.3% (global market shock & operational risk) +1.9% (other changes)	-2.2%	
Total	-4.8%	-5.2%	-7.8%

DISCUSSION

A. Background

Following the 2007-09 financial crisis, the Board adopted substantial reforms to the regulatory capital framework, including increases to minimum requirements and buffers, the introduction of a stress testing framework, and the introduction of a risk-based capital surcharge for systemically important banks (the GSIB surcharge). These revisions substantially improved the robustness of the framework, contributing to the strength of the U.S. banking system. Since the financial crisis, large banks have more than doubled their capital levels, an increase of more than \$1 trillion. However, some elements of the framework have resulted in excessive requirements for traditional banking activities, such as mortgage origination and servicing, which may have accelerated migration of some activities from the regulated banking system to non-banks. Other elements of the framework, such as the advanced approaches, have added

complexity and burden without commensurate benefits. And certain requirements, such as the GSIB surcharge, have increased in stringency in a manner not commensurate with risk in recent years.

To address these shortcomings, staff, in coordination with the other banking agencies, have undertaken a review of the capital framework to modernize it while retaining its robustness. For instance, the recently finalized changes to the enhanced supplementary leverage ratio standards reinforce the role of leverage requirements as a backstop to risk-based capital requirements and address unintended incentive effects.⁶ The community bank leverage ratio proposal would reduce regulatory burden while continuing to promote the safety and soundness of community banks.⁷ And recent proposals to revise the Board's stress testing framework would improve its transparency and reduce excess volatility in the stress capital buffer requirement.⁸

The three proposals under consideration would further enhance and streamline the capital framework while ensuring that U.S. banking organizations continue to be safe, sound, and able to support the U.S. economy across all economic conditions.

B. Basel III Proposal

The Basel III proposal would simplify and improve the capital framework by enhancing its risk sensitivity and consistency while retaining the robustness of requirements. Currently, the largest, most internationally active firms (Category I and II firms) are required to calculate two sets of risk-based capital ratios. One set uses the U.S. standardized approach, which generally applies to all U.S. banking organizations. The other set uses the advanced approaches, which

⁶ See 90 FR 55248 (December 1, 2025).

⁷ See 90 FR 55048 (December 1, 2025).

⁸ See 90 FR 16843 (April 22, 2025) and 90 FR 51856 (November 18, 2025).

apply only to Category I and II firms and rely on these firms' internal models to assess the risk of their activities. The Basel III proposal would simplify the risk-based capital framework for Category I and II firms by subjecting them to a single set of risk-based capital ratios, using the expanded risk-based approach.

The expanded risk-based approach would include standardized risk-weighting methodologies for credit, equity, and operational risks to improve the consistency of requirements across large banking organizations. Relative to the current U.S. standardized approach, this new approach would better capture credit risk, including by incorporating additional relevant metrics (for example, loan-to-value ratios for real estate exposures). The expanded risk-based approach would also introduce an explicit operational risk requirement, calculated based on a firm's income and expenses, that would capture this risk appropriately across the range of activities of large U.S. banking organizations, including investment management and custody.

Relative to the advanced approaches, the expanded risk-based approach is simpler, poses less burden for banking organizations, and results in more consistent requirements. Its risk sensitivity is also bolstered by the stress capital buffer requirement, which adds a forward-looking perspective to the requirements of large firms. On balance, the expanded risk-based approach provides more robust requirements than the advanced approaches and, therefore, the proposal would eliminate the advanced approaches.

Additionally, the Basel III proposal would substantially improve the risk sensitivity and calibration of market risk capital requirements for firms with significant trading activity, including by better accounting for potential losses in stressed conditions and the risks of less liquid trading positions. Furthermore, the proposal would introduce a standardized methodology

for calculating risk-weighted assets for market risk. Relative to the Basel standards, the proposed approach is better suited for U.S. firms because it more fully recognizes diversification across positions and allows firms to use internal models that more accurately capture risk when data quality and models are robust. The proposal would also include an explicit capital requirement to capture the risk of losses arising from deterioration in the creditworthiness of derivative counterparties (credit valuation adjustment risk), which would apply to firms with significant trading activity and material derivative portfolios.

In proposing these revised risk-based capital requirements for Category I and II firms, staff is mindful of the overlaps between the capital and stress testing frameworks. The proposed stress testing changes include material reductions to the projected losses relating to operational risk and trading positions. Because the Basel III proposal would increase capital requirements associated with operational risk and market risk, staff expects capital requirements for these risks would not change meaningfully and views the combined calibration of these measures as appropriate.

Requirements under the Basel III proposal would generally be consistent with international capital standards issued by the Basel Committee on Banking Supervision. Where appropriate, the proposal differs from the Basel standards to reflect specific characteristics of U.S. markets, features of U.S. generally accepted accounting principles, practices of U.S. banking organizations, and U.S. legal requirements and policy objectives.

Due to the reduction in capital requirements for exposures with certain favorable risk characteristics, the expanded risk-based approach may appeal to other firms. Accordingly, the

proposal would allow other firms to elect to use the expanded risk-based approach, rather than the U.S. standardized approach, to calculate risk-based capital requirements.⁹

C. GSIB Surcharge Proposal

Under the capital rule, each GSIB is subject to an additional risk-based capital buffer requirement (GSIB surcharge) to strengthen the firm's resilience based on the risks its failure or distress could pose to the U.S. financial system. The GSIB surcharge proposal would improve the framework's measurement of systemic risk and better align surcharges with GSIBs' systemic risk.

The proposal would improve the calculation of GSIB surcharges in several ways. First, the proposal would modify the method 2 fixed coefficients to (1) reflect changes in the financial system and economy over the past few years and (2) introduce a mechanism that would automatically adjust these coefficients annually to account for economic growth and inflation going forward. Second, to better align the surcharge requirement with the systemic risk posed by GSIBs, the proposal would remove the risk-weighted assets denominator from the short-term wholesale funding indicator and recalibrate the indicator's weighting to 20 percent, as originally intended. Third, to better reflect a firm's systemic risk profile and reduce incentives for firms to make temporary adjustments to reported indicators of systemic risk at year-end, the proposal would require firms to calculate certain systemic indicators as an annual average of their daily or monthly values rather than on a point-in-time basis at year-end. Fourth, to reduce cliff effects and increase the sensitivity of the GSIB surcharge to changes in a firm's systemic risk profile, the proposal would assign surcharges in increments of 10 basis points rather than 50 basis points.

⁹ Under the proposal, firms that choose to opt in to the expanded risk-based approach would be subject to the same definition of capital as Category I or II firms, including the requirement to account for accumulated other comprehensive income in regulatory capital.

Finally, the proposal would improve the measurement of certain systemic indicators and improve the clarity of instructions for related regulatory reporting.

D. Standardized Approach Proposal

The third proposal would modify certain aspects of the U.S. standardized approach to improve risk sensitivity while generally maintaining the simplicity of the current framework.

The proposal would better calibrate capital requirements for the risks of the largest categories of bank lending activities, moderately reducing them relative to the current standardized approach. For example, the proposal would use loan-to-value ratios to determine the applicable risk weight for residential real estate exposures. In addition, the proposal would make targeted adjustments to the existing counterparty credit risk, credit risk mitigation and securitization frameworks, which align with those included in the Basel III proposal. Together, these changes aim to retain simple and robust requirements while helping banks further support lending to the economy.

Both the standardized approach proposal and the Basel III proposal would remove any requirement to deduct mortgage servicing assets from regulatory capital and would instead assign a 250 percent risk weight to all such assets (while also asking a question about the appropriate risk weight for these assets).¹⁰ This change would help promote bank participation in mortgage businesses, while recognizing uncertainty regarding firms' ability to realize value from mortgage servicing assets over the economic cycle.

The standardized approach proposal would also require Category III and IV firms to include elements of accumulated other comprehensive income (AOCI) in common equity tier 1

¹⁰ This proposed modification to the definition of capital would apply to all banking organizations subject to the capital rule, including those subject to community bank leverage ratio framework.

capital, consistent with the treatment applicable to Category I and II firms.¹¹ The proposal would include a question about the appropriate scope of mandatory recognition of AOCI in regulatory capital and a five-year phase-in of the effect of this recognition to avoid a large, immediate increase in capital requirements for Category III and IV firms.

E. Impact on Capital Requirements

The proposals are expected to result in a moderate decrease in capital requirements for Category I and II firms. Table 1 presents projected changes to the common equity tier 1 capital requirements of these firms, decomposed across the (1) Basel III proposal, (2) the GSIB surcharge proposal, and (3) analysis of projected impacts related to recently proposed changes to stress test models and scenarios.

The Basel III proposal is expected to increase the common equity tier 1 capital requirements of Category I and Category II firms by 1.4 percent. This increase stems from higher requirements for trading activities, mostly offset by a decrease in the requirements applicable to traditional lending activities.

The GSIB surcharge proposal would decrease the common equity tier 1 capital requirements of GSIBs by an estimated 3.8 percent. This decrease is mostly due to the reduction of the systemic indicator coefficients and revisions to the calculation of short-term wholesale funding score under method 2.

¹¹ AOCI generally reflects unrealized gains and losses on certain assets and liabilities that have not been included in net income yet are included in equity under the generally accepted accounting principles (for example, unrealized gains and losses on securities designated as available-for-sale).

Together with the proposed stress test changes, the common equity tier 1 capital requirements of Category I and II firms are projected to decrease by 4.8 percent.^{12,13} In large part, estimated reductions connected to the stress testing proposal would reflect changes to the modeling of operational and market risks.

To provide context for this moderate decrease in capital requirements, Figure 1 illustrates how the common equity tier 1 capital requirements applicable to Category I and II firms have evolved since 2015 compared to a counterfactual scenario in which (1) post-2019 rule changes would not have increased capital requirements,¹⁴ (2) the GSIB surcharges would not have gradually increased due to method 2 coefficients remaining fixed, and (3) the reforms to the calculation of loan loss reserves (the current expected credit loss (CECL) standard) did not require banks to increase allowances for credit losses, thereby requiring additional capital retention to avoid declines in regulatory capital ratios (the Basel III proposal covers the methodology used to estimate the counterfactual within Section VII.B.1).

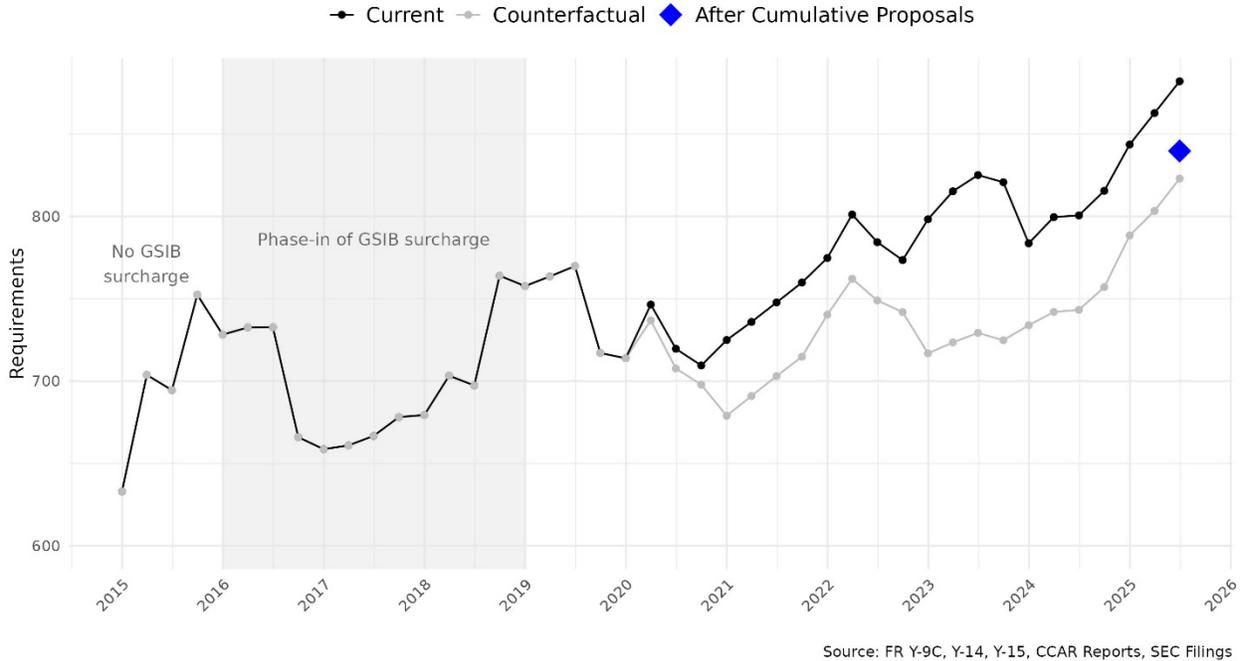
¹² As explained in the Basel III proposal, the estimated capital impact of the proposed stress test changes are based on the illustrative analysis published in the stress testing proposal that considered the potential effects of the proposed stress test changes within the 2024 and 2025 supervisory stress tests, independent of other factors and components that inform the Board's stress capital buffer determinations for specific firms.

¹³ Together with the proposed stress test changes and inclusive of the impact of the recently finalized changes to the enhanced supplemental leverage ratio, the tier 1 capital requirements of Category I and II firms are projected to decrease by 6.0%.

¹⁴ The post-2019 rule changes incorporated into the counterfactual include the introduction of the stress capital buffer requirement in 2020 and the standardized approach for counterparty risk, which was implemented by firms between 2020Q2 and 2022Q1.

Figure 1

Common Equity Tier 1 Capital Requirements of Category I and II Bank Holding Companies (\$ bn)
Actual vs Counterfactual



This figure illustrates that the effects of the proposals on Category I and II firms are reasonable given the evolution of large bank capital requirements over the last decade, as capital requirements continue to reflect the key post-financial crisis reforms while being moderately eased relative to the current framework.

For Category III and IV firms, staff estimates that the standardized approach proposal would reduce common equity tier 1 capital requirements by 3.0 percent. This reduction can be decomposed into a 6.1 percent decrease due to revisions to the calculation of risk-weighted assets and a 3.1 percent increase due to the inclusion of AOCI in regulatory capital.¹⁵ Together

¹⁵ The impact of AOCI recognition is a long-run average estimate using the average ratio of AOCI to securities amortized cost for bank holding companies from 1996 through 2025. Its impact on capital requirements does not reflect any interaction with stress capital buffer requirements.

with the proposed revisions to stress testing models, the common equity tier 1 capital requirements of Category III and IV firms are projected to decrease by 5.2 percent.

For banking organizations with less than \$100 billion in total assets, the revisions to the calculation of risk-weighted assets in the standardized approach proposal – which would decrease the risk weights for traditional banking activities such as corporate, retail, and residential real estate lending – are expected to reduce common equity tier 1 capital requirements by 7.8 percent.

F. Economic Analysis

Taken together, the Basel III proposal and the GSIB surcharge proposal would better align capital requirements for the largest banking organizations with risks. The current framework includes multiple components (two leverage ratios, the stress capital buffer, the GSIB surcharge, and traditional risk-based capital with multiple sets of calculations), which introduce substantial complexity to firms' capital planning and result in deadweight costs. Despite the moderate reduction in capital requirements these proposals would cause, a simpler and more transparent capital framework produced by the proposals would increase the efficiency of capital allocation in a risk-sensitive manner and retain the resilience of large banking organizations.

The proposed changes to the standardized approach would revise certain risk weights applicable to non-Category I and II firms to more closely reflect the underlying risks. These changes would lower the capital required by these firms to support certain traditional lending activities, including mortgages. In particular, these revisions are expected to support on-balance sheet lending by these banks, potentially reversing some of the migration in activity to non-banks that has occurred over the past decade. Given the key role that bank lending plays in supporting overall economic activity, these changes are expected to generate significant economic benefits.

The moderate reduction in capital requirements stemming from these changes could, in turn, lower the resilience of these banks. Given the robust capital positions that U.S. banks currently maintain and their overall strength, this reduction is not expected to be material.

Overall, the analysis concludes that the benefits of the proposals justify the costs.

RECOMMENDATIONS:

For the reasons discussed above, staff recommends that the Board approve the attached draft notices of proposed rulemaking. Staff also recommends that the Board authorize staff to make technical, non-substantive changes to the attached materials prior to publication.