Basel III Endgame

Regulation Overview and Requirements Summary

Botsford ASSOCIATES

Regulation Overview

The proposed rule aims to improve the resilience of the U.S. banking system by modifying capital requirements for large banking organizations to better reflect their risks and applying more transparent and consistent requirements across large banking organizations.

The rule would apply to large banks, or those with more than $100 billion in total consolidated assets. For banks with less than $100 billion in total assets, the market risk provisions of the proposal would also apply to those with significant trading activity. The proposal includes transition provisions to allow banks sufficient time to adjust to the changes where the would be fully phased in on July 1, 2028.

Proposed Scope of Rule for Large Banking Organizations

The proposed rule sets standards for large banking organizations by categorizing them into four groups relative to the amount of total assets. Banking organizations subject to Category I standards would continue to be subject to the strictest standards, where U.S. GSIBs would continue to be subject to a risk-based capital surcharge and continue to be subject to the enhanced supplementary leverage ratio.

Category I	Category II	Category III	Category IV
U.S. global systemically important bank holding companies (GSIBs), and their depository institution (DI) subsidiaries	Banking organizations with ≥ $700 billion in total assets or ≥ $75 billion in cross-jurisdictional activity, and their DI subsidiaries	Banking organizations with ≥ $250 billion in total assets or ≥ $75 billion in nonbank assets, weighted short-term wholesale funding, or off-balance sheet exposure, and their DI subsidiaries	Other banking organizations with $100 billion to $250 billion in total assets, and their DI subsidiaries

Key Changes to Capital & Disclosure Requirements

The proposal would require banks with total assets of $100 billion or more to:

1. Revise the framework used to calculate risk-weighted assets with more risk-sensitive standardized methods to calculate credit risk, market risk, operational risk, and CVA risk as part of the expanded risk-based approach;
2. Include unrealized gains/losses from available-for-sale securities in their capital ratios, which adds consistency to the way large banking organizations calculate regulatory capital;
3. Comply with the supplementary leverage ratio requirement, which requires maintaining a minimum amount of capital relative to the bank's on- and off-balance-sheet exposures; and
4. Comply with the countercyclical capital buffer, if activated. This is a macroprudential tool that the agencies may decide to activate based on a range of macroeconomic, financial, and supervisory information.

The proposal also makes updates to the disclosure requirements of large banks:

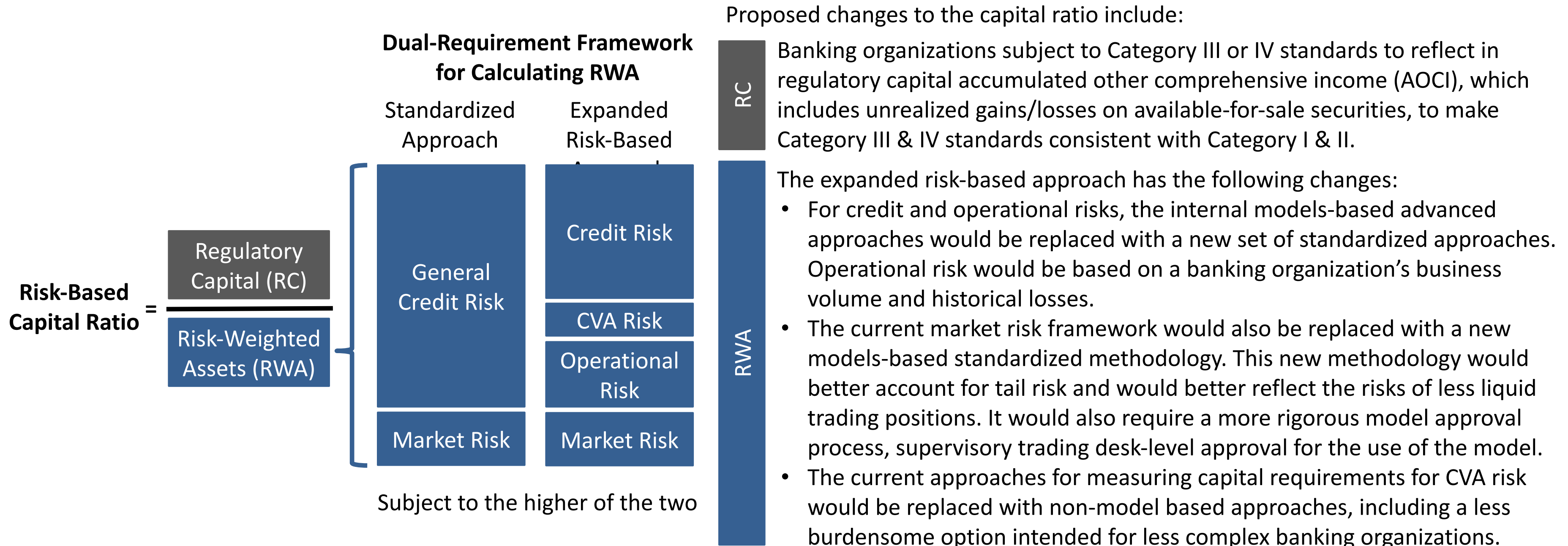
1. Revises certain existing qualitative disclosure requirements and introduces new and enhanced qualitative disclosure requirements related to the proposed revisions to the capital rule;
2. Removes from the disclosure tables most of the existing quantitative disclosures, which would instead be included in regulatory reporting forms; and
3. The agencies anticipate that revisions to the reporting forms of the Federal Financial Institutions Examination Council (FFIEC) for affected banking organizations will be proposed in the near future, to align the forms and instructions to the proposed revisions of the capital rule.

Basel III Endgame

Changes to Capital Framework and Transition

Proposed Changes to Risk-Based Capital Ratio Calculations

The proposal maintains the capital rule's dual-requirement to calculate RWA amounts under (1) the current standardized approach and (2) an expanded risk-based approach, where the higher of the two RWA amounts would be used to satisfy minimum capital requirements.



Proposed changes to the capital ratio include:

Banking organizations subject to Category III or IV standards to reflect in regulatory capital accumulated other comprehensive income (AOCI), which includes unrealized gains/losses on available-for-sale securities, to make Category III & IV standards consistent with Category I & II.

The expanded risk-based approach has the following changes:

- For credit and operational risks, the internal models-based advanced approaches would be replaced with a new set of standardized approaches. Operational risk would be based on a banking organization's business volume and historical losses.
- The current market risk framework would also be replaced with a new models-based standardized methodology. This new methodology would better account for tail risk and would better reflect the risks of less liquid trading positions. It would also require a more rigorous model approval process, supervisory trading desk-level approval for the use of the model.
- The current approaches for measuring capital requirements for CVA risk would be replaced with non-model based approaches, including a less burdensome option intended for less complex banking organizations.

Regulatory Timelines and Transition Period

There is a proposed 3-year transition period for 2 provisions of the rule:

1. **The expanded risk-based approach for all large firms**: The phase-in amount would be multiplied by expanded total RWA to use as denominator of the risk-based capital ratio.
2. **The inclusion of AOCI in regulatory capital**: The phase-in amount would be multiplied by the AOCI adjustment amount and deducted from its common equity tier 1 capital.

All other elements of the calculation of regulatory capital would apply upon the effective date of the rule.

Transition Period	% of Expanded Total RWA	% of the AOCI Adj Amount Recognized in Regulatory Capital Ratios
July 1, 2025 to June 30, 2026	80	75
July 1, 2026 to June 30, 2027	85	50
July 1, 2027 to June 30, 2028	90	25
July 1, 2028 and thereafter	100	0

Basel III Endgame

Changes to Capital Framework and Transition

Botsford ASSOCIATES

For additional information about this Regulatory brief or Botsford Associates Financial Services Regulatory Practice, and how we can help you, please contact:

Jon Block
Managing Partner
Financial Services
NYC: 917.647.3434 / TOR: 416.915.0438
jblock@botsford.com

Andrew Moreira
Managing Director - Consulting
Financial Services
NYC: 917.722.0939 / TOR: 647.361.4404
amoreira@botsford.com

Gordon Wong
Managing Director - Advisory
Financial Services
NYC: 917.722.1200 ext 319 / TOR: 437.253.4933
gwong@botsford.com