

Federal Banking Agencies Issue Long-Awaited Basel III Endgame Reproposal

March 26, 2026



By Daniel Meade
Partner | Financial Regulation



By Christopher Horn
Partner | Financial Services

On March 19, 2026, the Federal Reserve Board ("FRB"), Office of the Comptroller of the Currency ("OCC") and Federal Deposit Insurance Corporation ("FDIC", collectively, the "Agencies") released (i) a revised proposal for Basel III Endgame applicable to Category I and II institutions (the "[ERBA Proposal](#)") and (ii) proposed amendments to the existing standardized approach capital rules (the "[Standardized Proposal](#)"). The FRB also proposed amendments to the calculation method for the surcharge applicable to the U.S. globally important banking organizations (the "[GSIB Surcharge Proposal](#)"), and amendments to information collections based on the three other proposals (the "[Information Collection Proposal](#)").

The ERBA Proposal

The ERBA Proposal replaces the [July 2023 Basel endgame proposal](#) (which we discussed at the time, [here](#)) with something more aligned with the Basel agreements, and less gold-plating of the U.S. capital requirements. Like the 2023 proposal, the ERBA proposal would delete the current internal model-based advanced approach and replace it with the expanded risk-based approach ("ERBA"). The ERBA would be applicable to Category I and II institutions (generally the GSIBs and banking organizations with \$700 billion in assets or more).

The ERBA generally would not rely on internal models, and instead would be a more-or-less standardized assignment of risk weights. The ERBA Proposal also would eliminate the "dual stack" calculations that are currently required of advanced-approach banking organizations. In place of internal models for credit and operational risk, the ERBA Proposal would institute a more granular standardized system. Risk weights for real estate exposures would be more dynamic and adjust based on factors such as the loan's loan-to-value ratio.

Corporate exposure risk weights would be tied more directly to credit quality, and retail exposures reflect repayment structure. The framework is more differentiated than current standardized rules but less tailored than internal models. The Federal Reserve staff, in its [memo](#) to the Board of Governors, also noted that the risk sensitivity of the ERBA Proposal would be "bolstered by the stress capital buffer requirement, which adds a forward looking perspective to the requirements of large firms."

Under the ERBA Proposal, investment-grade corporate exposures can move from a 100% risk weight to 65%. Governor Waller underscored the point that capital "is not free." The proposal reflects that view. It reduces capital where the agencies see over-calibration and keeps or increases it where they do not.

Commercial real estate tells a similar story. Lower-LTV, strong-obligor exposures can fall well below 100 percent risk weights in some cases. But non-qualifying CRE and higher-risk structures move the other way, often to 150%. The ERBA Proposal tends to reward disciplined underwriting. Securitization is even more explicit. Senior securitization exposures may benefit from a lower risk-weight floor (15% rather than 20%). But resecuritizations and non-performing loan securitizations are subject to 100% floors.

Vice Chair of Supervision Bowman described the proposal as producing "more efficient regulation." That efficiency is selective. It applies to traditional banking activity. It does not necessarily extend to more complex activities.

The introduction of an operational risk capital requirement reinforces that duality. The op-risk provisions in the ERBA Proposal are not tied to asset class so much as business model. Firms with operationally intensive or fee-driven businesses will carry additional capital regardless of credit quality. Any benefit on the credit side must be evaluated net of this op-risk overlay.

The ERBA Proposal removes the common equity tier 1 (“CET1”) deduction regime and replaces it with a flat 250% risk weight. The agencies seem to be stepping away from a structure that constrained mortgage servicing and replacing it with one that allows the business to operate at a cost, but not a prohibition or steeper disincentives that exist now.

Vice Chair Bowman emphasized that the framework should better support economic growth, and stop squeezing out traditional banking activities from the regulated perimeter to private credit. The Agencies also addressed a long-standing technical issue: threshold drift. Key thresholds would be indexed for inflation. This prevents regulatory tightening through nominal growth alone. It is a small change with structural implications.

The Agencies estimate that the overall capital impact will be “reasonable.” CET1 requirements for large holding companies is estimated to increase by approximately 1.2%. At the insured depository institution level, estimated requirements decline by roughly 5.1%.

When combined with the GSIB surcharge proposal, discussed below, and the October 2025 stress capital buffer revisions, CET1 requirements decline by approximately 5% for Category I and II firms.

The Standardized Proposal

The Standardized Proposal focuses on three core areas: (i) the definition of regulatory capital, (ii) the calibration of risk weights for key asset classes, and (iii) targeted technical adjustments to existing methodologies. Taken together, these changes reflect a deliberate effort to improve risk sensitivity while avoiding the operational complexity associated with the expanded risk-based approach.

The Standardized Proposal follows the ERBA’s proposed treatment of MSAs by eliminating the deduction for mortgage servicing assets (MSAs) and instead applies a uniform 250% risk weight for MSAs. More consequentially, the proposal would require Category III and IV banking organizations to recognize most elements of accumulated other comprehensive income (“AOCI”) in CET1 capital, subject to a five-year transition period. This change aligns these firms with the treatment applicable to the largest banking organizations and reflects a clear policy preference for greater transparency in capital measurement. It will, however, introduce additional volatility into regulatory capital ratios, particularly for institutions with significant available-for-sale securities portfolios, and will likely prompt adjustments to interest rate risk management and balance sheet strategy.

The Standardized Proposal also recalibrates risk weights across several key exposure categories. Similar to the ERBA Proposal, the Standardized Proposal would rely more on an LTV-based framework for residential mortgage exposures, replacing the current binary approach.

Adjustments to corporate exposures and other assets are more modest in the Standardized Proposal, reducing the risk weight for corporate exposures from 100% to 95% and for other assets from 100% to 90%. These changes are calibrated based on analysis conducted in connection with the ERBA Proposal and are intended to better approximate underlying risk without introducing additional segmentation or complexity.

The Standardized Proposal also includes targeted revisions to off-balance sheet exposures and securitization. The definition of “commitment” is broadened to ensure more consistent treatment across institutions, capturing a wider range of arrangements that may result in future credit exposure. The securitization framework remains anchored in the existing standardized approach, but with refinements to exposure measurement and credit risk mitigation that align more closely with the ERBA.

Notably, the proposal bolsters the framework for significant risk transfer (SRT) transactions. While synthetic securitizations and credit derivatives are addressed within the existing structure, the proposal introduces a new form of credit risk mitigant, the “eligible prepaid credit protection arrangement,” that is intended to facilitate the direct issuance of credit linked notes by banks.

The practical consequence is a shift in how capital is allocated and managed. Institutions with lower-risk residential mortgage portfolios and more traditional lending profiles may benefit from reduced capital requirements. In contrast, institutions with significant securities portfolios or reliance on AOCI opt-outs will face increased volatility and new

strategic considerations. For many firms, the inclusion of AOCI will be the dominant driver of change, requiring a reassessment of balance sheet composition, hedging strategies, and capital planning.

GSIB Surcharge Proposal

The GSIB Surcharge Proposal addresses what some have called a structural flaw in the existing framework—one that has quietly but persistently distorted capital outcomes over the past several years.

At the center of the proposal is Method 2 of the GSIB surcharge framework. As practitioners are well aware, Method 2 was designed to provide a more predictable and firm-specific measure of systemic importance by relying on fixed coefficients rather than global aggregates. In practice, however, that design choice has created a different problem: the coefficients have remained static while the economy—and GSIB balance sheets—have not.

Since 2019, Method 2 scores have increased materially across U.S. GSIBs, even as Method 1 scores have remained broadly stable. The Federal Reserve explicitly acknowledges that this divergence is not primarily driven by increased systemic risk, but by nominal growth—balance sheet expansion, inflation, and broader macroeconomic changes. In other words, Method 2 has been capturing scale, not relative systemic importance.

The GSIB Surcharge Proposal responds with a two-part solution. First, it applies a one-time downward adjustment to Method 2 coefficients of approximately 20 percent, effectively resetting the framework to account for post-2019 growth. Second, it introduces an ongoing indexing mechanism tied to nominal GDP growth, calculated as a three-year moving average. This ensures that, going forward, Method 2 scores should remain stable if a firm grows in line with the broader economy.

The GSIB Surcharge Proposal also would make a significant change to the treatment of short-term wholesale funding (“STWF”). Under the current framework, the STWF indicator is expressed as a ratio to risk-weighted assets. This has produced counterintuitive results: firms with higher risk-weighted assets can appear less risky, even if their absolute reliance on short-term funding is unchanged.

The Federal Reserve proposes to eliminate this distortion by removing the risk-weighted assets denominator and replacing the ratio with an absolute measure of weighted STWF. The indicator would then be scaled by a coefficient calibrated to represent approximately 20% of Method 2 scores, which is consistent with the intended weighting of systemic indicators.

To address the point-in-time measurement “window dressing”, the GSIB Surcharge Proposal would require that key indicators be calculated using averages of daily or monthly values over the reporting period. The Federal Reserve notes that this change should result in GSIB scores that better reflect a firm’s typical risk profile rather than its year-end snapshot.

Comments on the three proposals are due June 18, 2026.