

New Cadwalader Whitepaper on Basel III Endgame Reproposal Treatment of Securitization Interests

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As we previously [reported](#) here in *Cabinet News & Views*, the Federal Reserve, the OCC, and the FDIC repropose the Basel III Endgame package of amendments to the U.S. risk-based capital rules (“The Reproposal”).

Last week, [we released a memo](#) taking a deep dive into the reproposals’ treatment of securitization exposures under both the New ERB Approach (“ERBA”) and the Revised Standardized Approach.

The Reproposal significantly revises the securitization capital framework applicable to U.S. banking organizations.

The key changes include:

- **SEC-SA.** The Reproposal would replace the current bifurcated securitization capital framework (SSFA and the gross-up approach under the standardized approach, and SFA under the advanced approaches) with a single SEC-SA methodology under both ERBA and the Revised Standardized Approach.

The most significant change from the 2023 NPR is the retention of the p-factor at 0.5 for non-resecuritization exposures, rather than the previously-proposed increase to 1.0. The Reproposal also lowers the general risk weight floor from 20% to 15%, while imposing a 100% risk weight floor for resecuritization exposures and non-performing loan securitization exposures.

The Reproposal makes a number of targeted, but important, revisions to the SEC-SA inputs, including Kg, W, A, and D.

Underlying risk weights for commonly securitized assets have changed materially and will significantly affect securitization capital requirements through the input.

- **Exceptions to SEC-SA.** The Reproposal introduces a look-through approach for senior securitization exposures that are not resecuritization exposures (risk weight equal to the weighted-average risk weight of the underlying exposures, floored at 15%), a dedicated 100% risk weight for certain senior securitization exposures to qualifying NPL securitizations, revised treatment for nth-to-default credit derivatives that bypasses SEC-SA, expanded treatment for overlapping exposures, and a CET1 deduction (rather than a 1,250% risk weight) for the portion of a CEIO strip that does not constitute after-tax gain on sale.

- **Revised Securitization Definitions.** The Reproposal generally retains the existing definitions of traditional and synthetic securitization, but would add prepaid credit protection arrangements to the synthetic definition, provide that traditional securitizations can transfer credit *or equity* risk, and require that securitization exposures “depend solely” on the performance of the underlying exposures. The “depends solely” change, if read literally, could exclude many common traditional securitizations from the securitization framework.
- **New Operational Criteria for Synthetic Securitizations.** The Reproposal generally retains the existing operational criteria for synthetic securitizations, but adds several important changes. The eligible CRM list now includes eligible prepaid credit protection arrangements” and excludes nth-to-default credit derivatives.

The operational criteria also include a prohibition on synthetic excess spread, a minimum payment threshold requirement, and a restriction on synthetic securitizations that include both revolving exposures and an early amortization provision.

The definition of “eligible clean-up call” is expanded to cover certain regulatory and tax events.

- **Eligible Prepaid Credit Protection Arrangements; Other Changes to the Credit Risk Mitigation Framework.** The Reproposal introduces eligible prepaid credit protection arrangements as a new CRM category, providing a codified pathway for directly issued CLNs which replaces the current reservation of authority process. The 40% restructuring haircut for eligible credit derivatives is relaxed, subject to specified conditions. Financial collateral recognition under the simple approach is expanded to permit mismatched collateral, subject to applicable maturity- and currency-mismatch adjustments.
- **Changes to Credit Conversion Factors (CCFs); New Definition of Commitment.** CCFs for commitments that are not unconditionally cancelable are set at 40% regardless of maturity. ERBA introduces a 10% CCF for unconditionally cancelable commitments, while the Revised Standardized Approach retains a 0% CCF for such exposures. Off-balance sheet securitization exposures continue to be subject to a separate exposure-amount rule that generally produces an effective 100% CCF.

The definition of “commitment” is significantly broadened to include contractual arrangements even where the banking organization is not obligated to extend credit or may refuse to do so with or without cause.

- **Other Changes Relevant to Securitization.** The Reproposal would eliminate the threshold-based CET1 deduction for MSAs and instead apply a 250% risk weight regardless of size.

Under ERBA, securitization-related noninterest income and expenses would generally be included in the business-indicator calculation for operational risk; the reproposal does not provide a securitization-specific carve-out.

With respect to securitization, the Reproposal represents a marked improvement over the 2023 NPR. The retention of the p-factor at 0.5, although more punitive than the math would suggest it should be, is far less punitive than the 2023 NPR’s proposed doubling to 1.0, and avoids the significant increase in capital requirements that market participants uniformly opposed.

The introduction of eligible prepaid credit protection arrangements provides, for the first time, a codified pathway for banking organizations to obtain capital recognition for directly issued credit-linked notes without prior supervisory approval, resolving a longstanding structural gap in the capital rules and removing a significant barrier to bank credit risk transfer transactions.

At the same time, the Reproposal retains some punitive features of the current securitization framework, including the p-factor of 0.5 and the 0.5 scalar applied to parameter (which implies a 625% risk weight on past due underlying exposures), and introduces new ones, such as the prohibition on synthetic excess spread and the inclusion of the positive current exposure of non-credit derivatives in the numerator of Kg.

The Reproposal also leaves a number of significant issues unresolved and poses a large number of questions on which the Agencies are actively seeking comment. Market participants should review these questions carefully and consider providing substantive responses on all questions during the comment period, which closes on June 18, 2026. Once a final rule is adopted, it is reasonable to assume that the securitization capital framework will not be the subject of material revision for many years.