

Reform of the U.S. Capital Framework

Analysis of the proposed comprehensive U.S. capital framework reform across all bank organization categories

Issued


19 March 2026

Issuing agencies

Federal Reserve Board, OCC and FDIC

Primary applicability

Banking organizations across Categories I to IV

The background features a dark blue gradient with various financial data visualizations. On the left, there are faint line graphs and bar charts. On the right, a stack of gold coins is prominent, with a blurred candlestick chart in the foreground. The overall aesthetic is professional and data-driven.

1. Executive summary

2. Overview new Basel 3 Proposal, 2026 NPRs

3. Category I & II

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A1. Annex I

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1. Executive Summary. General overview

The proposals modernize the capital framework by strengthening the existing risk-based, category-driven structure, combining a stronger expanded framework for large banks with a revised standardized framework for other institutions, while enhancing risk sensitivity, consistency, and disclosure requirements

Background

- Following the **Dodd-Frank Act (2010)**, U.S. federal banking agencies (**OCC, Federal Reserve, FDIC**) have progressively strengthened capital requirements, notably through the **2019 categorization framework (Category I–IV)** based on size, complexity, and risk profile.
- Recent initiatives aim to **modernize the capital framework**, improve alignment with **Basel standards**, and address inefficiencies identified through regulatory review exercises such as **EGRPRA**, while enhancing **risk sensitivity, consistency, and simplicity**.
- The **March 2026¹ Package** combines three different proposals:
 - i) a modified **Basel III Endgame proposal**,
 - ii) a **revised standardized approach**, and
 - iii) an **updated GSIB surcharge proposal**,

Together, these three proposals define the new prudential framework analysed in this note.

The **comment period** for the proposals closes on **June 18, 2026**.



Scope

- The package applies to **all banking organizations** with tailored requirements per banking category. Expanded risk-based approach is mandatory for Cat I-II institutions, and optional for Cat III-IV, subject to transition and opt-in conditions.
- The package covers **capital requirements for market risk and CVA** for banks with **significant trading and derivatives activity**, with updated thresholds and broader coverage of large institutions.

Objectives

- **Modernize the capital framework** by improving alignment with **Basel standards** and addressing inefficiencies identified through regulatory review exercises such as **EGRPRA**.
- **Enhance risk sensitivity, consistency, and comparability** across capital requirements, including RWAs, market risk, and CVA, while reducing undue reliance on internal models.
- **Strengthen transparency and governance** through improved disclosures and the indexation of key thresholds to preserve their real value over time.

Main content of the March 2026 Package

The reform introduces **several key structural changes**:

- I. **modified ERBA for Category I/II banks**, replacing the existing advanced approaches framework.
- II. a revised **standardized approach for Category III/IV banks**.
- III. a revised **GSIB surcharge framework** (FRB-issued only).
- IV. the **removal of the dual calculation approach and the output floor²**.

Category
I & II

Category
III & IV

- The reform centres on the **expanded approach** increasing **granularity**, strengthening **counterparty and market risk treatment**, and enhancing **disclosure requirements**.
- These institutions remain subject to the revised **standardized framework** by default. Differences between the categories are primarily driven by their respective **regulatory thresholds, prudential requirements, and potential relevance of the expanded approach**.

1. The March 2026 package is complemented by two other regulations, the December 2025 finalised eSLR rule (effective April 1, 2026) and the November 2025 proposed changes to stress test transparency.

2. Collins floor: Minimum RWA equal to 72.5% of the standardized RWA.

2. Overview new Basel 3 Proposal, 2026 NPRs.

The 2026 NPRs rescind the Basel III Endgame proposal, clarifying category-specific requirements, key capital impacts, and the path toward implementation

Capital Requirements	Category I	Category II	Category III	Category IV	2026 NPR updates
	US GSIBs	>\$700b TA	>\$250b TA	>\$100b TA	
Credit Risk					ERBA (Cat I-II): RW closer to BCBS-recommended. SA (Cat III-IV) RW reductions: 95% Corporates, 90% Others (incl. Retail). MSA deduction removed; 250% RW; CCF unified at 40%.
Counterparty Credit Risk					SA-CCR (Cat I-II); CEM (Cat III-IV), opt-in to SA-CCR.
Market Risk					FRTB IMA and FRTB SA: Unified DRC across IMA/SA desks; partial index look-through permitted; UMBS TBA netting clarified; smoothed IMA→SA cliff via NDRC.
CVA Risk					BA or SA-CVA, the latter requiring supervisory approval. SA-CVA: key updates include client-cleared derivatives excluded from CVA scope; external IRT matching removed; CVA hedges excluded from market risk capital; pro rata approach needed for split netting sets.
Operational Risk					No operational RWA is required under B3P SA; SMA only applies to banks using ERBA (Category I/II or opt-in).
G-SIB surcharge					Methodology is reformed: Method 2 changes; short-term wholesale funding indicator recalibrated, surcharges increments reduced.
Countercyclical buffer (CCyB)					No change in the 2026 NPR to the treatment of the countercyclical buffer.
Stress capital buffer (SCB)					Proposed stress changes would reduce SCB by around 2.2 percentage points cumulatively for Category III/IV firms.
Supplementary Leverage Ratio (SLR)					SLR finalized separately — not changed in 2026 NPR.
AOCI opt-out					AOCI opt-out eliminated for Cat. III/IV banks. IHC with >\$100bn combined US assets must include AOCI in CET1.

Applicable with no changes
 Applicable with changes
 Not applicable

1. Timeline of application is tentative. The proposals did not include an exact go-live date.

2026 NPR timeline¹

- **March 19, 2026** — NPRs publication
- **June 18, 2026** — Comment period close date
- **Q3–Q4 2026** — Agency review, economic re-analysis, possible re-proposal
- **2027** — Final rule expected; effective date and transitions announced
- **H1 2028** — Parallel run, IMA desk submissions, AOCI phase-in starts
- **Post-2028** — Go-live of ERBA/B3P SA binding, IMA decisions binding, PLAT 3-year monitoring begins

CET1 stack (capital buffers)

- **3.0%** → G-SIB surcharge
- **2.5%** → regulatory maximum if deployed at FRB's discretion
- **3.0%** → SCB
- **4.5%** → Minimum capital requirements

CET1 ratio = CET1 capital / RWA

- Recognition of AOCI in CET1 with a 5-year transition period.
- ERBA mandatory only for Category I/II. Foreign bank IHCs and other Category III/IV banking organizations may opt-in.

$$1. \text{Standardized}_{RWA} = RWA_{Credit}^{\text{Standardized}} + RWA_{Market}^{\text{FRTB SA/IMA}}$$

$$2. \text{ERBA}_{RWA} = RWA_{Credit}^{\text{ERBA-SA}} + RWA_{Market}^{\text{FRTB SA/IMA}} + RWA_{CVA}^{\text{SA}} + RWA_{Operational}^{\text{SMA}}$$

3. Category I & II. Expanded approach reforms for large and internationally active banks

For Category I and II institutions, and Category III and IV institutions opting-in¹, the proposal reshapes the prudential architecture by making the modified ERBA the core framework, replacing legacy advanced-approach features and refining capital, credit, market risk, CVA and disclosure treatment

Expanded approach

Definition of capital	<ul style="list-style-type: none"> The proposal preserves overall CET1, AT1, and Tier 2 capital structure for Category I and II banks, although it revises key deduction and recognition rules. A uniform 250% RW replaces the threshold-based deduction applied to mortgage servicing assets (MSA). Category I and II institutions already include AOCI in CET1 with no change under the 2026 NPR.
Credit Risk Framework	<ul style="list-style-type: none"> The proposal replaces the current advanced approaches credit framework (internal models) with a modified expanded risk-based approach (ERBA). It introduces more granular exposure classes and risk drivers across real estate, retail, and corporate exposures.
Credit Risk Mitigation and Securitization	<ul style="list-style-type: none"> The proposal strengthens the eligibility and operational requirements for guarantees, credit derivatives, and collateral - including stricter standards for creditworthiness, legal enforceability, and effective risk transfer, and introduces a revised securitization framework based on SEC-SA as the primary methodology (internal model-based approaches are no longer available). It refines the treatment of synthetic securitizations, resecuritizations, and NPL securitizations, and introduces risk-weight floors of 15% for standard securitization tranches and 100% for resecuritisations.
Off-balance-sheet items and derivatives	<ul style="list-style-type: none"> The expanded approach retains the two-step conversion of off-balance-sheet items into exposure amounts and then into RWAs, but restructures commitment treatment by introducing a uniform 40% CCF and a drawn-amount proxy for facilities without pre-set limits. For counterparty credit risk, the expanded approach mandates SA-CCR, with refined treatment of netting sets, eligible collateral, eligible margin loans, and repo-style transactions.
Equity exposures	<ul style="list-style-type: none"> For equity exposures, internal-model-based approaches are replaced by standardized risk weights that vary by exposure type, including publicly traded equities, non-publicly traded equities, and speculative or venture capital positions. The agencies characterize the new equity treatment as largely consistent with the current standardized approach, but now embedded within the expanded prudential framework.
Market risk framework	<ul style="list-style-type: none"> The proposal replaces the current VaR-based regime with a FRTB-aligned framework combining a Sensitivities-Based standardized measure and an IMA based on Expected Shortfall with risk-factor-specific liquidity horizons. The IMA remains subject to desk-level supervisory approval, while the standardized measure serves as the mandatory fallback for desks that do not obtain or retain IMA approval. The 2026 NPR also refines the Default Risk Charge treatment across IMA and SA desks, introduces partial index look-through, and clarifies UMBS TBA netting.
Credit valuation adjustment risk	<ul style="list-style-type: none"> Category I and II banks are subject to the revised CVA framework, which combines a BA-CVA and a more risk-sensitive SA-CVA subject to supervisory approval and mandatory use of SA-CCR. The proposal also refines scope and interactions, including the exclusion of client-cleared derivatives from CVA scope, revised treatment of internal risk transfers, the exclusion of CVA hedges from market risk capital, and modified treatment of split netting sets where BA-CVA and SA-CVA apply to different portions of the same legal netting set.
Operational risk	<ul style="list-style-type: none"> The AMA is eliminated and replaced by the Standardized Measurement Approach, which calculates capital requirements using a Business Indicator Component derived from observable financial statement data, improving comparability across institutions. This change formally brings operational risk into the expanded approach RWA calculation through a standardized methodology rather than internal models.
Disclosure and thresholds	<ul style="list-style-type: none"> The proposal modernizes disclosures by placing greater emphasis on qualitative transparency and reducing duplication with regulatory reporting. Category I and II banking organizations remain subject to enhanced public disclosure requirements. Separately, the proposal indexes certain dollar-based regulatory thresholds to inflation — including public disclosure thresholds — to preserve their intended application in real terms over time.

1. Category III and IV institutions that opt into the expanded approach apply the same ERBA framework as Category I and II banking organizations described in this Section 3, subject to the opt-in conditions, the notice requirement, and the differences in the surrounding capital stack.

4. Category III & IV. Standardized approach as default

The revised standardized approach remains the default framework for Category III and IV institutions, recalibrating capital, credit, off-balance-sheet, and securitization treatment while preserving a simpler prudential architecture than the expanded approach



Standardized approach

Definition of capital

- A uniform 250% RW replaces the threshold-based deduction applied to mortgage servicing assets (MSA).
- It mandates the inclusion of most AOCI components in CET1, with a five-year transition period, increasing consistency with the treatment applied under the expanded approach.

Credit Risk Framework

- The proposal preserves the basic mechanics of the standardized framework but recalibrates key risk weights and exposure treatments to improve risk sensitivity.
- It introduces a new LTV-based framework for residential mortgages (25%–110%), reduces the corporate exposure risk weight from 100% to 95%, reduces the risk weight for other unclassified assets from 100% to 90%, and revises the treatment of selected other exposure categories.

Credit Risk Mitigation and Securitization

- The proposal revises the CRM framework by tightening the eligibility criteria for guarantees, collateral, and credit derivatives, and updates securitization treatment, including SEC-SA-based elements and related calibrations.
- It also refines the treatment of synthetic securitizations, resecuritizations, and NPL securitizations, and introduces RW floors of 15% for standard securitization tranches and 100% for resecuritizations, while preserving the standardized architecture for institutions remaining outside the expanded approach.

Off-balance-sheet items and derivatives

- The proposal replaces maturity-based credit conversion factors with a uniform 40% CCF for most non-cancellable commitments and clarifies the treatment of certain derivative-related exposures under the standardized framework.
- It retains a simpler prudential treatment than the expanded approach. Institutions may separately opt into SA-CCR as an alternative to CEM under the standardized framework; institutions that additionally opt into the expanded approach become subject to mandatory SA-CCR with more refined recognition of netting sets and eligible collateral.

Equity exposures

- Under the revised standardized approach, equity exposures remain treated within the existing standardized structure rather than under the broader framework applied in the expanded approach.
- By contrast, an opt-in to the expanded approach would subject equity exposures to explicit RWA treatment within a broader prudential architecture, materially changing the framework for those institutions.

Market risk framework

- The proposal applies the market risk framework only where an institution meets the relevant trading activity thresholds, so market risk remains threshold-driven rather than category-driven.
- The same revised market risk framework would apply where relevant but opting into the expanded approach does not by itself trigger market risk requirements.

Credit valuation adjustment risk

- The proposal applies CVA requirements to institutions above the relevant OTC notional derivatives threshold — set at \$1 trillion adjusted for inflation — so CVA applicability remains linked to derivatives activity rather than category status.
- Opting into the expanded approach does not automatically create CVA applicability, but where the derivative threshold is met the revised methodology, including BA-CVA and SA-CVA, would apply.

Operational risk

- Under the revised standardized approach, the proposal does not introduce the standalone operational risk RWA framework embedded in the expanded approach.
- By contrast, an opt-in to the expanded approach would bring operational risk explicitly into RWA calculations, materially broadening the prudential framework for those institutions.

Disclosure and thresholds

- The proposal preserves the general disclosure regime for Category III and IV institutions, while indexing selected thresholds, including public disclosure thresholds, to inflation over time.
- If a Category III or IV institution opts into the expanded approach, it becomes subject to the same enhanced disclosure requirements applicable to Category I and II banking organizations and other expanded-approach opt-in institutions.

MS has extensive experience in risk and capital management, particularly in the processes of compliance with the associated regulation (Basel/Capital Rule/CRR)

- 1. Experience with supervisory bodies and regulation.** MS has demonstrated experience supporting U.S. and global regulatory expectations on regulatory adaptation, capital processes, and model risk.
 - Its experience includes assessing home- and host-country requirements, supporting adoption of new obligations arising from changes in bank categorization (Categories I-IV), navigating transition regimes such as Basel III/IV, FRTB, and the Capital Rule versus B3 Endgame, and aligning with supervisory expectations including FRB SR 11-7, OCC 2011-12, FDIC expectations, ECB TRIM, and EBA model guidance.
 - MS is the ECB's top-rated consultant and an accredited highly qualified provider in modelling, with 8 framework agreements.
- 2. Regulatory modelling.** MS has extensive experience in modelling: (i) credit risk (IRB, IFRS 9 & CECL, stress testing, and additional areas), (ii) market risk, CCR and IRRBB (VaR, pensions, xVA); (iii) ALM and liquidity; (iv) residual value; and (v) economic capital, among others.
- 3. Independent validation.** MS collaborates with various institutions as an independent validator of internal models, verifying compliance with regulatory requirements (e.g., FRB Capital Rule, SR11-7 – and new SR26-02, CRR, EBA Guidelines on Internal Models, ECB Guidance on internal models...) to obtain approval from regulators (e.g., FRB, OCC, ECB, DNB, Bundesbank...).
- 4. Experience in the design and implementation of capital calculation engines.** MS has a proven track record in supporting institutions in the design and implementation of capital calculation and reporting solutions (including our proprietary MIR and SIRO tools, already adapted to Basel IV). In addition, MS has broad expertise in the execution of capital impact analysis exercises and optimization.
- 5. Specialized team.** MS has a team of more than 1,000 experts in the field of risk and capital management (modelling, regulation, impacts, information systems, reporting...), combining quantitative and technical expertise with strong regulatory knowledge.

A2. Annex II. Abbreviations

Abbreviation	Meaning
AOCI	Accumulated Other Comprehensive Income
AMA	Advanced Measurement Approach
AT1	Additional Tier 1
B3P	Basel III Endgame Proposal
BA-CVA	Basic Approach for Credit Valuation Adjustment Risk
BCBS	Basel Committee on Banking Supervision
BIC	Business Indicator Component
CCF	Credit Conversion Factor
CCyB	Countercyclical Capital Buffer
CEM	Current Exposure Methodology
CET1	Common Equity Tier 1
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
DRC	Default Risk Charge
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
eSLR	Enhanced Supplementary Leverage Ratio
ERBA	Expanded Risk-Based Approach
FDIC	Federal Deposit Insurance Corporation
FRB	Federal Reserve Board
FRTB	Fundamental Review of the Trading Book
G-SIB	Global Systemically Important Bank
GAAP	Generally Accepted Accounting Principles

Abbreviation	Meaning
IHC	Intermediate Holding Company
IMA	Internal Models Approach
IRT	Internal Risk Transfer
LTV	Loan-to-Value
MSA	Mortgage Servicing Asset
NDRC	Non-Default Risk Charge
NPL	Non-Performing Loan
NPR	Notice of Proposed Rulemaking
OCC	Office of the Comptroller of the Currency
OTC	Over-the-Counter
PLAT	Profit and Loss Attribution Test
RWA	Risk-Weighted Assets
SA	Standardized Approach
SA-CCR	Standardized Approach for Counterparty Credit Risk
SA-CVA	Standardized Approach for Credit Valuation Adjustment Risk
SCB	Stress Capital Buffer
SEC-SA	Securitization Standardized Approach
SLR	Supplementary Leverage Ratio
SMA	Standardized Measurement Approach
TA	Total Assets
TBA	To-Be-Announced
UMBS	Uniform Mortgage-Backed Security
VaR	Value at Risk



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