

# Basel III Reproposal

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## Issue Update

It is critically important that banks' capital levels be correctly calibrated to provide an adequate cushion against risk and losses, while also allowing banks to remain competitive sources of credit for their communities. The agencies' 2026 Basel III reproposal replaces the deeply flawed Basel III Endgame proposal with two coordinated capital frameworks: the Enhanced Risk-Based Approach (ERBA) and a revised Standardized Approach.

The reproposal reflects a materially improved, more transparent and data-driven process, with better calibration and alignment across the capital framework. While the overall approach is directionally improved, certain cross-cutting elements could significantly increase capital requirements in ways that are not aligned with underlying risk.

### Enhanced Risk-Based Approach:

- Applies mandatorily to Category I and II banks (primarily G-SIBs) and optional for all other banks.
- Comprehensive framework covering credit, market, operational, and counterparty risks for large firms.
- Greater risk sensitivity through differentiated risk weights, e.g., 65% for investment-grade corporate exposures.
- More granular retail exposure treatment, distinguishing transactors (45%) from other retail exposures (75% to 100%).
- CRE and residential real estate risk weight framework based on LTV and cash flow dependence.
- Standalone operational risk charge based on business indicators and historical loss data.
- Introduction of a 10% credit conversion factor (CCF) for “unconditionally cancelable commitments.”

### Revised Standardized Approach:

- Applies to all other banks that have not adopted the CBLR framework.
- Category III and IV banks must recognize AOCI in capital, subject to a 5-year transition period.
- Recalibrated but largely flat risk weights (e.g., 95% corporates; 90% retail/other exposures).
- Residential real estate risk weight framework based on LTV and cash flow dependence.
- Operational risk “add-on” imbedded in risk weights, no standalone operational risk charge.
- Retains current 0% CCF for unconditionally cancelable commitments – no capital charge.

### Overlap and Cross-Cutting Issues:

- Eliminates the MSA capital deduction threshold and retains the current 250% risk weight.
- Broadly expands the definition of a “commitment” to include non-legally binding arrangements.
- Applies higher capital and reporting requirements to off-balance sheet exposures, including revised treatment of commitments and undrawn exposures.
- Aligns securitization frameworks and removes the current gross-up approach.
- Allow banks to recognize certain types of credit risk mitigants, such as eligible guarantees, credit derivatives, and collateral for risk-based capital purposes.

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## Why It Matters

A well-calibrated capital framework is essential to maintaining a safe and resilient banking system while ensuring banks can continue to serve as a primary source of credit in the economy. Capital buffers must be sufficient to absorb losses, but excessive or poorly calibrated requirements can constrain lending, raise costs for consumers and businesses, and push activity into less regulated parts of the financial system.

The 2026 reproposal represents a significant improvement compared to the 2023 proposal. The agencies have incorporated more robust economic analysis, increased transparency, and meaningfully engaged with stakeholders. This improved process enhances the credibility of the framework and supports more durable, well-informed policy outcomes.

Maintaining a risk-sensitive framework is equally important. More accurate risk differentiation allows banks to allocate capital more efficiently and support lending to households, small businesses, and local economies. Where the framework overstates risk (e.g., by applying capital requirements to non-binding commitments), banks may reduce credit availability or withdraw from certain products, with broader implications for economic growth.

## Recommended Action Items

1. **Express support for the agencies' more tailored approach to capital requirements** embodied in both the ERBA and Standardized Approach proposals.
2. **Express support for the agencies' goal of improving the calibration and risk-sensitivity of the capital framework** with respect to banks' core lending activities. Reinforce the importance of a well-calibrated capital framework that supports lending and economic growth.
3. **Urge the agencies not to finalize the proposed revisions to the definitions** of "commitment," "unconditionally cancelable," "traditional securitization," and "synthetic securitization" considering the significant and unassessed impact these changes would have on banks' capital requirements and the ambiguity these proposed changes would create.
4. **Urge the agencies to ensure the final rule accounts for the overlap between the proposal and the revised stress testing final rule.** For example, overlap between the stress test and market risk and CVA frameworks and a bank's stress capital buffer and the operational risk charge.