

Bank Capital Requirements: A Primer and Policy Issues

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Andrew P. Scott

Specialist in Financial
Economics

Marc Labonte

Specialist in
Macroeconomic Policy

Financial regulators at the state and federal levels take a number of measures to ensure the financial health of banks, generally through what is referred to as prudential (or safety and soundness) regulation—rules and standards put in place to mitigate risks associated with banking activity. One way that regulators ensure that banks operate in a safe and sound manner is by establishing capital requirements that banks must meet. Bank capital serves a number of important roles: Primarily it serves as a layer of protection against losses, and in doing so it promotes public confidence in banking institutions. Regulators do this in part because when banks fail, the federal government provides a financial safety net to protect depositors and the broader economy from losses.

Capital requirements are statutorily mandated, but statute provides the regulators with discretion to set them as “deem(ed) to be necessary and appropriate”—although Congress has occasionally intervened legislatively to modify specific rules or details. Capital rules are set through regulation by the federal bank regulators—the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Office of the Comptroller of the Currency (OCC)—and are often modeled off international agreements made by the members of the Basel Committee on Banking Supervision (the most recent agreement being known as “Basel III”), which includes U.S. regulators.

Many capital requirements are based on *risk-weighted assets (RWA)*, which base how much capital is required on the riskiness of the bank’s assets, whereas others, called leverage requirements, are generally based on total assets irrespective of the riskiness of those assets. The reason regulators use RWA in addition to total assets is because some assets are inherently riskier than others. Without risk weighting, banks would have an incentive to hold riskier assets, as the same amount of capital must be held against riskier and safer assets. But risk weights could also prove inaccurate. For example, banks held highly rated mortgage-backed securities (MBSs) before the 2008 financial crisis in part because those assets had a higher expected rate of return than other assets with the same risk weight. MBSs then suffered unexpectedly large losses during the crisis. Thus, leverage ratios, which are based on balance sheet size rather than risk, can be thought of as a backstop to ensure that incentives posed by risk-weighted capital ratios do not result in a bank holding insufficient capital. However, there are policy tradeoffs in using these two types of requirements. RWAs are more complex and therefore impose greater regulatory burden. For that reason, Congress created an option for qualifying smaller banks to opt out of risk-weighted requirements in 2018 when it created a simplified regime called the community bank leverage ratio (CBLR). Another issue of increasing frequency is that leverage requirements are requiring banks to hold more capital than risk-weighted requirements. This has the disadvantage, some argue, of making capital regulation no longer based on the principle of matching risk with capital.

The banking regulators under leadership appointed by President Trump have released a series of proposed and final rules since 2025 that would cumulatively reduce the amount of capital that banks are required to hold on net. The final rules include changes to the CBLR and the enhanced supplementary leverage ratio (eSLR). The proposed rules would change the Global Systemically Important Bank (G-SIB) surcharge, amend the existing capital framework, and implement the “Basel III Endgame.” Regulators can raise or lower required capital in one of two general ways: by changing the ratio of required capital to assets or by changing how banks calculate their RWAs. The eSLR and CBLR rules reduce capital by lowering ratios, whereas the other proposals change RWA calculations.

A healthy banking industry is important to the overall economy. To that end, Congress legislates on and conducts oversight of bank regulation, including capital requirements. There is perennial congressional debate about whether capital requirements are too high or low and too simple or complex.

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Introduction

Banks are typically places where consumers can safeguard their money in the form of deposits. Banks then use those deposits to lend out to other consumers and businesses. This is called *credit intermediation*, and it is an important facet of economic activity. Intermediation is also inherently risky: Sometimes borrowers default on loans. Because banks lend out a portion of the deposits they receive, if their losses were great enough on defaulted loans, banks would be unable to honor deposits. Financial regulators at the state and federal levels take a number of measures designed to ensure the financial health of banks, generally through what is referred to as prudential (or safety and soundness) regulation—rules and standards put in place that mitigate risks associated with banking activity. In addition, regulators conduct routine examination of banks’ books to ensure that bank operations meet prudential standards. When banks fail to follow those rules, regulators have enforcement powers to compel them to correct deficiencies.

Capital requirements are a key prudential measure that banks must meet in order to operate in a safe and sound manner. Capital serves as a layer of protection against losses. In doing so it promotes public confidence in banking institutions. Capital standards serve to provide a buffer between losses and systemic risk, but they also constrain a bank’s potential for lending and other asset growth. Because of this trade-off between safety and performance, Congress has perennially debated the balance between prudential standards and regulatory burden. Frequently, that debate focuses on proposals to modify capital requirements.

How Capital Regulation Works

A core practice of banks is to make loans, which are assets on the bank’s balance sheet. Banks also acquire other assets such as securities and property. Banks primarily raise the funds needed to make loans by attracting deposits, a type of liability. Banks can also borrow money from creditors (e.g., by issuing debt), which is another type of liability. However, banks must hold more assets than liabilities in order to remain solvent, so they also raise funds from another source, referred to as capital. Conceptually, a bank’s capital is the stock or equity that represents the owners’ stake in the bank.¹ (As discussed below, the regulatory definition of *capital* is more complex and includes various other instruments, but owner equity is the primary type of regulatory capital.) The value of a bank’s capital is the difference between the value of its assets and the value of its liabilities. By setting capital requirements, regulators compel banks to acquire at least a certain amount of funding from this source.

Capital helps a bank avoid insolvency and failure. When banks make loans, sometimes borrowers do not pay their loans back, and the value of the loan to the bank falls. On the bank’s balance sheet, as these loans default, the value of the bank’s assets fall to reflect the new value of the loans. The bank can remain solvent because the initial losses are balanced by reducing the bank’s capital value. For example, if a bank’s owners have retained earnings from the prior year, they can use those past earnings to pay off debts when the proceeds from their assets are insufficient. From a cash flow perspective, if a bank becomes unable to both pay all of its creditors and make dividend payments to stockholders, debts are repaid first (generally, creditors are legally required to be repaid before stockholders collect dividends, and dividend payments are not mandatory), increasing the possibility of the bank remaining solvent. In this manner, capital acts as a buffer for losses.

¹ Equity may be publicly traded in the case of a publicly listed bank or held by owners in an illiquid form for privately held banks.

Why Have Capital Requirements?

Regulators require banks to hold capital to reduce the likelihood of bank failures, which can negatively affect the local and broader economy, and to avoid widespread bank failures because of the systemic risk that they pose to financial stability, as occurred during the Great Depression. To avoid those outcomes, the federal government provides a financial safety net to protect insured depositors and the broader economy from bank failures. The government safety net comes in two separate forms: Deposit insurance is provided by the Federal Deposit Insurance Corporation (FDIC) to protect depositors from any loss (up to the insurance limit) in the event of a bank failure, and the Federal Reserve (Fed) acts as a lender of last resort, extending short-term credit to banks that are unable to access funding in private markets. These measures aim to ensure that banks remain liquid during periods of economic stress and reduce the likelihood that a liquidity crisis becomes a solvency problem. In addition, the government, FDIC, and Fed have also provided banks with ad hoc, emergency assistance in past crises, such as the 2008 financial crisis.

Capital is the buffer for the bank that protects the financial safety net from losses. It absorbs losses, providing a layer of protection before a potential public intervention may occur. Capital allows an institution to continue operating through periods of foreseeable losses without reaching insolvency, ensuring that the initial risk of loss is borne by owners rather than the public safety net. Thus, capital requirements contribute to the safety of the banking system, with significant consequences for taxpayers, the broader financial system, and the economy.

Current U.S. Bank Capital Framework

Capital requirements are statutorily mandated, and statute provides the regulators with discretion to set them as “deem(ed) to be necessary and appropriate”—although Congress has occasionally intervened legislatively to modify specific rules or details.² Capital rules are set through regulation by the federal bank regulators—the FDIC, the Fed, and the Office of the Comptroller of the Currency (OCC). The OCC is the primary federal regulator for nationally chartered banks, the Fed for state-chartered banks that become members of the Federal Reserve System, and the FDIC for the remaining state-chartered banks.³ Generally, the capital framework these regulators establish is consistent among regulators⁴ and aligns with the recommendations of an international standard-setting body called the Basel Committee on Banking Supervision (BCBS), although details sometimes diverge between domestic regulation and Basel agreements.⁵

Capital requirements were updated significantly following the Basel II and Basel III agreements, the latter of which was intended to address weaknesses in capital rules that were exposed by the 2007-2009 financial crisis. (See the **Appendix** for more information on historical capital frameworks in the United States.)

² 12 U.S.C. §3907. For examples of legislative interventions, see the **Appendix**.

³ The term *bank* is used generally in this report to refer to an institution that is subject to capital requirements and has one of the federal bank regulators as its primary regulator. All banks that accept federally insured deposits face capital requirements. There are also more exotic types of bank charters that the three regulators have respective jurisdiction over that are ignored here for simplicity. For more on who regulates which type of bank, see CRS Report R44918, *Who Regulates Whom? An Overview of the U.S. Financial Regulatory Framework*, by Marc Labonte.

⁴ Differences in capital standards among regulators are minimal. For details, see Office of the Comptroller of the Currency (OCC) et al., “Joint Report: Differences in Accounting and Capital Standards Among the Federal Banking Agencies as of September 30, 2022,” 88 *Federal Register* 5960, January 30, 2023, <https://www.govinfo.gov/content/pkg/FR-2023-01-30/pdf/2023-01697.pdf>.

⁵ The BCBS is described in greater detail in the **Appendix**.

Generally, banks are required to meet a range of basic capital requirements to ensure that when they take losses, they have an adequate buffer against insolvency. In addition, larger banks are required to meet enhanced prudential standards that include higher capital ratios to mitigate systemic risk. As discussed in more detail below, capital requirements are expressed as ratios where the numerator is capital and the denominator is assets. There are two broad categories of requirements—risk-weighted requirements, where the size of the denominator is based on the riskiness of a bank’s assets, and leverage requirements, where all assets are treated equally in the denominator.

The following sections summarize the different types of capital requirements established by federal banking regulators. The next section provides details on the basic capital standards that all banks are required to meet—first, how the numerator (capital) is defined; next, how the denominator (assets) is calculated; and, finally, an overview of the various numerical ratios that banks must meet. Then the subsequent section discusses the additional standards that larger institutions must meet.

Regulatory Definitions of *Capital*

There are three core capital components that make up banks’ total capital, as described in **Table 1**. Banks use each component to meet various regulatory capital requirements. Each component as listed below is progressively less able to absorb losses.

Table 1. Regulatory Capital Components

Capital Component	Summary of Capital Elements
Common Equity Tier 1 capital	Sum of common stock issued by the bank; retained earnings; accumulated other comprehensive income; Common Equity Tier 1 minority interest; common stock issued and held in trust for the benefit of employees as part of an employee stock ownership
Additional Tier 1 capital	Unsecured and paid-in capital instruments issued with no maturity or planned incentives to redeem, which are subordinated to depositors
Tier 2 capital	Unsecured and paid-in capital instruments subordinated to depositors with a minimum maturity of five years

Source: 12 C.F.R. Chapter III, Subchapter B, §324.20.

Tier 1 capital has two main components: Common Equity Tier 1 (CET1) and additional Tier 1 capital:

1. CET1 represents the core equity of a bank, comprising retained earnings and common stock. CET1 is the highest quality of capital and serves to absorb initial losses, because a bank faces no obligation to repay it and can write down its value in the event of losses. The FDIC’s Risk Management of Examination Policies defines CET1 as “qualifying common stock and related surplus net of treasury stock; retained earnings; certain accumulated other comprehensive income (AOCI) elements if institution management does not make an AOCI opt-out election, plus or minus regulatory deductions or adjustments as appropriate; and qualifying common equity tier 1 minority interests.” According to the FDIC,

the federal banking agencies expect the majority of CET1 capital to be in the form of common voting shares.⁶

2. Additional Tier 1 capital includes qualifying noncumulative perpetual preferred stock, bank-issued instruments from federal programs such as the Small Business Lending Fund or Troubled Asset Relief Program that previously qualified for Tier 1 capital, and qualifying Tier 1 minority interests—that is, less certain investments in other unconsolidated financial institutions’ instruments that would otherwise qualify as additional Tier 1 capital.⁷

Tier 2 capital includes the allowance for loan and lease losses up to 1.25% of risk-weighted assets (RWAs), qualifying preferred stock, subordinated debt, and qualifying Tier 2 minority interests, less any deductions in the Tier 2 instruments of an unconsolidated financial institution.

Risk-Weighted Assets (RWAs)

As discussed below, banking regulators establish a number of capital ratios that determine how much capital an institution must hold to remain adequately capitalized. Many capital ratios are calculated as a percentage of total *RWA*. The reason regulators use RWA instead of just assets is because some assets are inherently riskier than others. For example, if a bank holds Department of the Treasury (Treasury) bonds, that is a relatively low-risk asset, exposing the bank to limited potential losses. However, if a bank holds a loan portfolio of subprime mortgages, that is relatively higher risk. To account for these differences in risk profiles, regulators require banks to hold more capital against assets with greater relative risk. Assets are grouped into risk categories and assigned a risk weight, which determines how much capital a bank must hold against exposure. Risk weights (e.g., 20%) are not the amount of capital required. Rather, they are the percentage of the assets within that category that counts toward the denominator of the capital ratio. In other words, if a bank faces a capital requirement of 6% and holds \$100 of assets with a risk weight of 20%, the bank must hold \$1.20 (6% x 20% x \$100) of capital for those assets.

Some examples of risk weights are provided below in **Table 2**.

Table 2. Select Risk Weights for FDIC-Supervised Banks

Risk Weight	Examples of Assets
0%	Investments in U.S. government (e.g., Treasury bonds) and exposures that are unconditionally guaranteed by the U.S. government
20%	Exposure to U.S. government that is conditionally guaranteed by the U.S. government; to the GSEs (e.g., Fannie Mae and Freddie Mac) that is not equity exposure or preferred stock; to U.S. depository institutions
50%	Most first-lien residential mortgages, pre-sold construction loans that are not cancelled
100%	GSE preferred stock; most corporate exposures, junior-lien residential mortgages
150%	Exposures to a sovereign where a sovereign default has occurred in the previous five years, loans that are more than 90 days past due that are not guaranteed or are unsecured

Source: 12 C.F.R. §324.32.

⁶ Federal Deposit Insurance Corporation (FDIC), “Capital,” in *Risk Management Manual of Examination Policies*, August 2022, p. 2.1-3, <https://www.fdic.gov/regulations/safety/manual/section2-1.pdf>.

⁷ For background, see CRS Report R41427, *Troubled Asset Relief Program (TARP): Implementation and Status*, by Baird Webel; and CRS Report R42045, *The Small Business Lending Fund*, by Robert Jay Dilger.

Notes: This is not an exhaustive list and is used simply to illustrate how certain asset categories are treated differently with respect to capital requirements.

Federal regulations prescribe two approaches to risk-weighting assets. Most banks are subject to the *standardized approach*. The *advanced approach* is required for only the nine largest, most complex institutions, although other banks may voluntarily adopt it. The standardized approach is a simpler calculation that banks can use to account for their exposures to risk, while the advanced approach is more complex, using enhanced methodologies for calculating risk exposures. For more information, see the section below entitled “Advanced Approaches.”

Minimum Capital Requirements

There are several capital requirements, which will be explained in greater detail below, that banks must comply with. Banks meet these various requirements simultaneously, as opposed to additively, with the exception of buffers, which are on top of the minimum requirements. In other words, banks do not need to hold separate amounts of capital to comply with multiple requirements. **Table 3** explains how these requirements are calculated. A series of requirements, which are referred to as the “generally applicable framework,” are the default set of requirements that a bank would need to comply with. However, some qualifying banks have opted out of the generally applicable framework and instead comply with the community bank leverage ratio (CBLR).⁸ In addition, large banks are subject to a series of requirements in addition to the generally applicable framework.⁹

Table 3. Minimum Capital Requirements

Capital Ratio	Calculation
<i>Generally Applicable Framework</i>	
Common Equity Tier I (CETI) Capital	CETI/RWA
Tier I Capital	Tier I/RWA
Total Capital	Total Capital/RWA
Capital Conservation Buffer*	CETI/RWA
Leverage	Tier I Capital/Total Consolidated Assets (less certain deductions)
<i>Other Measures</i>	
Supplementary Leverage (Large Banks)	Tier I Capital/Total Leverage Exposure
Tangible Capital (Federal Savings Associations)	Tier I Capital/Average Total Assets
Community Bank Leverage	Tier I Capital/Average Total Consolidated Assets

Sources: 12 C.F.R. §3.10-11; 12 C.F.R. §217.10-11; 12 C.F.R. Chapter III, Subchapter B, Part 324.

Notes: The calculation of risk-weighted assets (RWAs) varies for the standard approach and advanced approach, although the numerical requirement is the same for both methods. See text for definitions and which banks each requirement applies to.

* The capital conservation buffer is defined differently for large banks. Depending on the bank, it may include the stress capital buffer, the countercyclical capital buffer, the Global Systemically Important Bank (G-SIB) surcharge, or some combination of these measures.

⁸ See the section entitled “Community Bank Leverage Ratio (CBLR).”

⁹ See the section entitled “Large Bank Enhanced Capital Framework.”

A 1983 federal appeals court ruling called into question the authority of bank regulators to enforce capital rules on banks. The ruling argued that capital weakness alone, as measured by capital ratios, was not a sufficient justification to impose a cease-and-desist order on a bank.¹⁰ In November 1983, Congress responded to this court ruling by granting clear authority over bank capital levels to the federal banking supervisors in the International Lending Supervision Act of 1983 (12 U.S.C. §3901).

Through their supervisory, enforcement, and resolution powers, bank regulators can compel banks to take actions to improve their safety and soundness. Capital requirements trigger the consistent application of remedial actions through the prompt corrective action (PCA) framework.

Prompt Corrective Action (PCA)

The Federal Deposit Insurance Corporation Improvement Act of 1991 (P.L. 102-242) built on this authority to establish criteria for which regulators would take certain remedial actions based on the capital positions of each institution. This rules-based enforcement scheme is referred to as PCA. The philosophy behind PCA is to limit taxpayer losses by intervening swiftly when a bank becomes undercapitalized and before it loses more money. The general PCA framework is summarized in **Table 4**. The minimum requirements are set equal to the adequately capitalized PCA requirements.

Table 4. Prompt Corrective Action (PCA) Framework

General Regulations for Commercial Banks

PCA Category	Total Risk-Based Capital Ratio	Tier I Risk-Based Capital Ratio	Common Equity Tier I Capital Ratio	Leverage Ratio
Well Capitalized	≥ 10.0% and	≥ 8.0% and	≥ 6.5% and	≥ 5.0%.
Adequately Capitalized	≥ 8.0% and	≥ 6.0% and	≥ 4.5% and	≥ 4.0%
Undercapitalized	< 8.0% or	< 6.0% or	< 4.5% or	< 4.0%.
Significantly Undercapitalized	< 6.0% or	< 4.0% or	< 3.0% or	< 3.0%.
Critically Undercapitalized	n/a	n/a	n/a	Ratio of tangible equity to total assets ≤ 2.0%.*

Source: 12 C.F.R. Part 324, FDIC, *Formal and Informal Enforcement Actions Manual*, “Chapter 5—Enforcement Actions: Prompt Corrective Action,” p. 4, <https://www.fdic.gov/regulations/examinations/enforcement-actions/ch-05.pdf>.

Notes: CBLR institutions that meet a leverage ratio greater than 8% are considered well capitalized; see “Community Bank Leverage Ratio (CBLR)” section of report. In addition to the capital requirements listed in the table, certain actions issued by the FDIC would prevent a bank from being considered well capitalized. A bank subsidiary of a Global Systemically Important Bank (G-SIB) is deemed well capitalized if it meets the above criteria and has a supplementary leverage ratio that is more than 3.0% and no more than 4.0% (the value will depend on each G-SIB’s surcharge—see the section below entitled “Supplementary Leverage Ratio”). Category I, II, and III banks and any other that elects to use advanced approaches must also meet a supplementary leverage ratio ≥ 3.0% to be considered adequately capitalized and is deemed undercapitalized if it has a supplementary leverage ratio < 3.0%.

¹⁰ First National Bank of Bellaire v. Comptroller of the Currency, 697 F.2d 674 (5th Cir. 1983).

* Tangible equity is Tier 1 capital plus the amount of outstanding perpetual preferred stock (including related surplus) not included in Tier 1 capital.

Increasingly stringent restrictions are placed on a bank that is less than adequately capitalized in order to restore its capital levels. Institutions that are adequately capitalized or better are not subject to supervisory action regarding their capital positions.¹¹ However, an institution that is undercapitalized, significantly undercapitalized, or critically undercapitalized is subject to the following provisions, according to the FDIC:¹²

- It cannot approve capital distributions or pay management fees.
- The FDIC will monitor the condition and compliance of the institution.
- It must submit a capital restoration plan to the FDIC within 45 days of becoming undercapitalized.
- Its asset growth is restricted unless such growth is consistent with the FDIC-approved capital restoration plan.
- It is restricted from engaging in acquisitions, branching, or new lines of business unless the FDIC has provided prior approval.

In addition, small banks that are undercapitalized are subject to more frequent examinations,¹³ and undercapitalized banks may not accept brokered deposits.¹⁴ Significantly and critically undercapitalized institutions face additional provisions, which can include recapitalization through sale of voting shares, transaction restrictions, and interest rate restrictions paid on deposits. Critically undercapitalized institutions are further prohibited from engaging in certain transactions, amending their bylaws or charters, and making excessive bonuses or compensation. A critically undercapitalized bank may ultimately be taken into FDIC resolution, where it is likely to be liquidated or sold to a healthier institution.¹⁵

Risk-Weighted Capital Requirements

There are separate risk-weighted requirements for the three different types of capital. Because CET1 is more loss absorbent than other Tier 1 capital and Tier 1 is more loss absorbent than Tier 2, banks are required to hold at least 4.5% common equity, 6% of Tier 1 capital, and 8% of total capital to be considered “adequately capitalized.” These capital requirements are cumulative, so the more loss absorbent types of capital count toward meeting the less stringent requirements. In other words, the 4.5% of CET1 also counts toward the Tier 1 requirement, so only up to 1.5% of other Tier 1 is needed to meet that requirement. Likewise, the 6% Tier 1 capital counts toward the total capital requirement, so only up to 2% of Tier 2 capital is required to meet that requirement. Alternatively, a bank could hold 8% CET1 and meet all three requirements.

¹¹ There are no regulatory penalties for being adequately capitalized. However, to avoid the capital restrictions associated with failing to meet the capital conservation buffer (CCB; see main text), banks would need to exceed the PCA well-capitalized standards. Regulators also evaluate for capital adequacy as part of their supervisory exams, so banks might seek to maintain well-capitalized status to avoid any negative effect on their CAMELS ratings. For background on bank supervision, see CRS Report R46648, *Bank Supervision by Federal Regulators: Overview and Policy Issues*, by David W. Perkins.

¹² FDIC, “Prompt Corrective Action,” in *Formal and Informal Enforcement Actions Manual*, June 2022, p. 5, <https://www.fdic.gov/regulations/examinations/enforcement-actions/ch-05.pdf>.

¹³ 12 U.S.C. §1820(d)(4).

¹⁴ 12 C.F.R. §§337.6 et seq.

¹⁵ FDIC, *Formal and Informal Enforcement Actions Manual*, p. 5.

On top of those requirements, banks must hold a capital conservation buffer (CCB) composed of CET1 equal to at least 2.5% to avoid any restrictions on capital distributions (e.g., dividends and share buybacks).¹⁶ As the CCB falls below 2.5%, regulators impose increasing restrictions on capital distributions, and if the CCB falls to 0.625% or lower, all capital distributions are prohibited. The purpose of the buffer, as the name would suggest, is to ensure that banks have enough of a capital buffer in good times that they do not fall below their minimum requirements during an economic downturn. If banks fell below their minimum requirements in a downturn, they could be forced to suddenly cut back on lending, exacerbating the downturn.

Leverage Ratios

The leverage ratio is the ratio of Tier 1 capital (with certain adjustments) to consolidated assets. Unlike other regulatory capital ratios, assets are not risk-weighted for purposes of the leverage ratio. The rule implementing Basel III raised the minimum leverage ratio from 3% to 4% for certain banks, including those with a strong supervisory rating.¹⁷ (Banks that did not have a strong supervisory rating were already required to maintain a 4% leverage ratio.) In other words, the value of the bank's Tier 1 capital must be equal to at least 4% of the value of the bank's assets to be considered adequately capitalized. The bank must maintain a leverage ratio of at least 5% to be considered well capitalized, however.

Why have both a leverage ratio and risk-weighted capital ratios? Basel III measures most capital ratios in terms of RWA to account for the fact that some assets are riskier than others. A basic tenet of finance is that riskier assets have a higher *expected* rate of return in order to compensate the investor for bearing more risk. Without risk weighting, banks would have an incentive to hold riskier assets, as the same amount of capital must be held against riskier and safer assets. But risk weights may prove inaccurate. For example, banks held highly rated mortgage-backed securities (MBSs) before the 2008 financial crisis, in part because those assets had a higher expected rate of return than other assets with the same risk weight. MBSs then suffered unexpectedly large losses during the crisis. Thus, the leverage ratio can be thought of as a backstop to ensure that incentives posed by risk-weighted capital ratios to minimize capital and maximize risk within a risk weight do not result in a bank holding insufficient capital.

The leverage ratio is simpler and more transparent than risk-weighted capital measures because the public does not have full information on the risk weight assigned to each asset held by the bank. Therefore, the public can less easily assess whether a bank has enough capital to absorb potential losses based on risk-weighted ratios. Some policymakers concluded after the 2008 financial crisis that boosting simpler, more transparent measures of capital can be better at restoring confidence during a crisis.¹⁸

¹⁶ All three of the CET1, Tier 1, and total capital requirements must be at least 2.5 percentage points above the minimum requirements to avoid restrictions on capital distributions. Restrictions on capital distributions are also tied to the countercyclical capital buffer for applicable banks, which has always been set at zero in practice. See the section entitled "Countercyclical Capital Buffer."

¹⁷ In addition to these requirements, a type of depository institution chartered as a federal savings association must maintain a 1.5% tangible capital ratio. See 12 U.S.C. §1464(t).

¹⁸ BCBS, *Strengthening the Resilience of the Banking Sector*, December 2009, <https://www.bis.org/publ/bcbs164.pdf>; Asli Demirguc-Kunt et al., *Bank Capital: Lessons from the Financial Crisis*, International Monetary Fund, Working Paper WP/10/286, December 2010, <https://www.imf.org/external/pubs/ft/wp/2010/wp10286.pdf>.

Community Bank Leverage Ratio (CBLR)¹⁹

In 2018, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA; P.L. 115-174). Section 201 of this law mandated that banks with less than \$10 billion in consolidated assets that meet certain criteria be given the option by regulators to comply with a higher leverage ratio instead of having to calculate the various capital requirements, including the more complex risk weights noted above. This made capital rules for smaller institutions tailored to simplify the requirements based on the notion that these institutions pose less risk to financial stability and the FDIC's Deposit Insurance Fund and that complying with complex regulations poses a relatively greater regulatory burden for them. In 2019, the federal banking agencies jointly issued a final rule that simplified the measure of capital adequacy for qualifying community banking organizations (qualifying criteria are summarized in **Table 5**) that opt in, thereby implementing Section 201 of the EGRRCPA. The rule became effective at the beginning of 2020. Section 201 granted the bank regulators authority to set the ratio requirement, so long as it was between 8% and 10%. The regulators settled on 9% in their 2019 final rule.²⁰

In 2026, the regulators finalized a rule to lower the CBLR to a minimum of 8%. The new rule also expanded the grace period that allows banks to remain noncompliant before they must revert to the generally applicable framework, now up to four quarters, with a maximum of eight quarters every five years. As of June 2025, the final rule states that just under half of the roughly 3,600 eligible depository institutions have adopted the CBLR framework.²¹ The rule suggests that the revision from 9% to 8% would expand the number of banks eligible for the CBLR framework by around 500.

Table 5. CBLR Framework

Component	Criteria
Qualifying community bank	• Less than \$10 billion in consolidated assets • Off-balance-sheet exposures of 25% or less of total consolidated assets • Trading assets plus liabilities of 5% or less of total consolidated assets • Not an advanced approaches organization
Calculation of leverage ratio	Tier I capital/average total consolidated assets
Leverage ratio requirement	Greater than 8%

Source: Office of the Comptroller of the Currency et al., “Regulatory Capital Rule: Community Bank Leverage Ratio Framework,” 91 *Federal Register* 22973, April 29, 2026.

Large Bank Enhanced Capital Framework

The 2007-2009 financial crisis highlighted the problem of “too big to fail” financial institutions—the concept that the failure of large financial firms can trigger financial instability, which in several cases prompted extraordinary federal assistance to prevent their failure. One pillar of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act’s (Dodd-Frank Act; P.L. 111-203) response to addressing financial stability and too big to fail is a new enhanced prudential

¹⁹ For more on the CBLR, see CRS Report R45989, *Community Bank Leverage Ratio (CBLR): Background and Analysis of Bank Data*, by David W. Perkins.

²⁰ Federal Reserve et al., “Federal Bank Regulatory Agencies Issue Final Rule to Simplify Capital Calculation for Community Banks,” press release, October 29, 2019, <https://www.fdic.gov/news/news/press/2019/pr19100.html>.

²¹ Comptroller of the Currency, Federal Reserve System, and FDIC, “Regulatory Capital Rule: Community Bank Leverage Ratio Framework,” 91 *Federal Register* 22973, April 29, 2026.

regulatory (EPR) regime that applies to large banks and to nonbank financial institutions designated by the Financial Stability Oversight Council (FSOC) as systemically important financial institutions (SIFIs). (There are currently no designated SIFIs.²²)

Title I of the Dodd-Frank Act automatically subjected all bank holding companies (BHCs) and foreign banks with more than \$50 billion in assets to EPR. In 2018, EGRRCPA (P.L. 115-174) created a more “tiered” and “tailored” EPR regime for large banks.²³ It automatically exempted domestic banks with assets between \$50 billion and \$100 billion from enhanced regulation. The Fed has discretion to apply most individual EPR provisions to banks with between \$100 billion and \$250 billion in assets on a case-by-case basis if it would promote financial stability or the institutions’ safety and soundness, and the Fed has proposed exempting them from several EPR requirements.

In 2019, the Fed implemented these changes by creating a four-tier system for U.S. banks, with more stringent requirements at each tier.²⁴ The Fed used the \$100 billion and \$250 billion thresholds found in P.L. 115-174, along with other metrics, to define Category III and IV banks. **Table 6** summarizes the definition of each category and the number of U.S. banks in each category as of 2021. The 2019 rule requires foreign banks with over \$50 billion in U.S. non-branch assets and \$250 billion in global assets to form intermediate holding companies (IHCs) to house certain U.S. operations. Those IHCs are also placed in the four categories, and the number in each is shown in **Table 6**.

Table 6. Banks Subject to EPR

As of 2025: Fourth Quarter

	Criteria	# of U.S. Banks	# of IHCs ^a
Category I	U.S. G-SIBs	8	0
Category II	Other banks with > \$700 billion in assets or > \$75 billion in cross-jurisdictional activity	1	0
Category III	Other banks with > \$250 billion in assets or > \$75 billion in nonbank assets, weighted short-term wholesale funding, or off-balance-sheet exposure	6	7
Category IV	All other banks with \$100-\$250 billion in assets	9	3

Source: Federal Reserve, “Data Sources and Terms,” in *Supervision and Regulation Report*, June 2026, <https://www.federalreserve.gov/publications/2026-june-supervision-and-regulation-report-data-sources-terms.htm>.

Notes: G-SIB = Global Systemically Important Bank, as designated by the Financial Stability Board.

- a. Foreign banks with over \$50 billion in U.S. non-branch assets and \$250 billion in global assets are required to form intermediate holding companies to house certain U.S. operations.

Under this regime, the Fed is required to apply a number of safety and soundness requirements to large U.S. banks and IHCs that are more stringent than those applied to smaller banks. Category I,

²² Previously, FSOC had designated four nonbank SIFIs for enhanced prudential regulation; all four have since been de-designated.

²³ BHCs are legal entities that allow more than one bank to be owned within the same ownership group. Banks within a holding company can be structured as banking subsidiaries. A type of BHC called a financial holding company may own both bank subsidiaries and nonbank financial subsidiaries.

²⁴ Federal Reserve, “Federal Reserve Board Finalizes Rules That Tailor Its Regulations for Domestic and Foreign Banks to More Closely Match Their Risk Profiles,” press release, October 10, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191010a.htm>.

composed of banks designated as Global Systemically Important Banks (G-SIBs) by the Financial Stability Board, are subject to the most stringent EPR requirements.

Some of these more stringent capital requirements are described in the rest of this section. Many of these capital requirements originate from Basel III rather than the Dodd-Frank Act. These capital requirements determine how the largest banks must fund all of their activities on a day-to-day basis. In that sense, these requirements arguably have a larger ongoing impact on banks' marginal costs of providing credit and other services than most of the other EPR provisions that impose only fixed compliance costs on banks.²⁵ For a full overview, see CRS Report R45711, *Enhanced Prudential Regulation of Large Banks*, by Marc Labonte.

Advanced Approaches

Since Basel II, large, complex banks have been required to use “advanced approaches”—more technical, complex procedures—to model risk for more sophisticated financial activities. Previously, advanced approaches were required for institutions that had consolidated total assets equal to \$250 billion or more or consolidated total on-balance-sheet foreign exposures equal to \$10 billion or more. In the 2019 tiering rule, the Fed changed this so that only Category I and II banks are required to use advanced approaches. Other banks may still elect to use advanced approaches if they wish.²⁶

There are other examples of cases where large banks follow more complicated methodology to comply with capital rules than those used by smaller banks. For example, another rule in 2019 simplified the capital treatment of certain assets to reduce regulatory burden. Advanced approaches banks were not allowed to use this simplified capital treatment.²⁷ As another example, the rule implementing Basel III required unrealized gains and losses on *available-for-sale* (AFS) securities (as well as certain other items included in AOCI) to count toward capital requirements for advanced approaches banks. Other banks were given a one-time opportunity to opt out of this requirement.

Supplementary Leverage Ratio

Basel III introduced a supplementary leverage ratio (SLR) for large banks. G-SIBs, Category II and III banks, and any other bank that elects to be an advanced approaches bank must meet a 3% SLR at the holding company level and at the depository subsidiary level to be considered adequately capitalized. In addition, as a result of a final rule issued in 2025, G-SIBs must also meet an enhanced SLR (eSLR) of 3% plus 50% of the G-SIB's Method 1 capital surcharge at the holding company level.²⁸ For 2025, G-SIBs face a Method 1 surcharge that varied by bank from

²⁵ *Regulatory compliance costs* refers to resources and manpower directly expended on ensuring that a bank is complying with regulation.

²⁶ Some additional capital requirements apply to those banks that have elected to be advanced approaches banks. For simplicity, those additional capital requirements are not noted in the summary tables throughout this report.

²⁷ OCC et al., “Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996,” 84 *Federal Register* 35234, July 22, 2019, <https://www.govinfo.gov/content/pkg/FR-2019-07-22/pdf/2019-15131.pdf>.

²⁸ OCC et al., “Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies,” 90 *Federal Register* 55248, December 1, 2025, <https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us>.

1% to 2.5%, so the eSLR at the holding company level would vary from 3.5% to 4.25%.²⁹ For the depository subsidiaries, the eSLR is 3% plus 50% of the G-SIB's Method 1 capital surcharge but can be no more than 4% overall.³⁰ This is a reduction from the previous requirement that G-SIBs meet an eSLR of 5% at the holding company level (specifically, G-SIBs must meet a 2% buffer on top of the 3% SLR requirement) to avoid restrictions on discretionary bonuses and capital distributions and 6% at the depository subsidiary level to be considered well capitalized.³¹

Like the leverage ratio, the SLR uses Tier 1 capital in the numerator and unweighted assets in the denominator.³² The difference between the leverage ratio and the SLR is that the SLR includes off-balance-sheet exposures in the denominator. Thus, the numerator is the same, but the denominator is larger.³³ The SLR is intended to ensure that the bank is adequately safeguarded against off-balance-sheet losses that are not captured in the leverage ratio. Unanticipated losses related to opaque off-balance-sheet exposures exacerbated uncertainty about banks' solvency during the 2007-2009 financial crisis. According to the regulators, there is less need to subject small banks to the SLR because small banks on average have fewer off-balance-sheet exposures.

As will be discussed below, one of the overarching policy debates surrounding capital requirements is whether regulators should adjust leverage requirements so that they are not predominantly the binding requirement banks face. According to the bank regulators, before it was reduced, the eSLR was the binding constraint for five of the eight holding companies and eight of the nine major bank subsidiaries³⁴ of the G-SIBs in 2024. Bank regulators argued that the rule would "help ensure that the enhanced supplementary leverage ratio standards serve as a backstop to risk-based capital requirements rather than a frequently binding constraint, thus reducing potential disincentives for GSIBs ... to participate in low-risk, low-return activities,"³⁵

²⁹ CRS calculations based on Financial Stability Board, *2025 List of Global Systemically Important Banks (G-SIBs)*, November 27, 2025, <https://www.fsb.org/uploads/P271125.pdf>. The G-SIB surcharge is added to the G-SIB's risk-weighted capital requirements based on each's systemic importance. The surcharge is based on which of two methods is higher. Method 1 on average yields a lower surcharge.

³⁰ Board of Governors of the Federal Reserve System et al., "Agencies Issue Final Rule to Modify Certain Regulatory Capital Standards," press release, November 25, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125b.htm>. For more information, see CRS In Focus IF13078, *Bank Capital Requirements and Treasury Market Resiliency*, by Marc Labonte.

³¹ OCC et al., "Regulatory Capital Rules," 79 *Federal Register* 24528, May 1, 2014, <https://www.gpo.gov/fdsys/pkg/FR-2014-05-01/pdf/2014-09367.pdf>.

³² Although the basic principle of leverage ratios is to treat all assets equally, policymakers have debated whether certain assets should be exempted. Section 402 of P.L. 115-174 allowed for custody banks—defined by the legislation as banks "predominantly engaged in custody, safekeeping, and asset servicing activities"—to no longer hold capital against funds deposited at certain central banks to meet the supplementary leverage ratio (SLR) up to an amount equal to customer deposits linked to fiduciary, custodial, and safekeeping accounts. All other banks would continue to be required to hold capital against central bank deposits. According to the implementing rule, the Bank of New York Mellon, Northern Trust, and State Street were the only banks that qualified for this exemption at the time. Board of Governors of the Federal Reserve System et al., "Agencies Finalize Changes to Supplementary Leverage Ratio as Required by Economic Growth, Regulatory Relief, and Consumer Protection Act," press release, November 19, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191119a.htm>.

³³ Because of the larger denominator, regulators originally estimated that an SLR of 3% is equivalent to a leverage ratio of 4.3%, on average. Thus, the 3% SLR requires affected banks to hold more capital on average than the 4% leverage ratio does.

³⁴ One G-SIB has two major depository subsidiaries.

³⁵ OCC et al., "Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies," 90 *Federal Register* 228, December 1, 2025, <https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us>.

such as Treasury market making.³⁶ Improved market making could make Treasury markets less fragile, which has been a focus of policymakers for several years.³⁷ The six largest Treasury dealers are owned by G-SIBs.³⁸ Under the rule, the regulators estimate that the eSLR will no longer be binding for all G-SIBs with primary dealer subsidiaries. The rule is closer to international Basel standards, removing what critics call U.S. “gold plating” from the eSLR. (However, the international Basel standard did not include a cap, so the U.S. standard is now lower.³⁹) Against these benefits, lower capital requirements could also make the G-SIBs more likely to fail and cause financial instability.

G-SIB Capital Surcharges

Basel III also required G-SIBs to hold relatively more capital for their risk-weighted requirements than other banks in the form of a common equity surcharge of at least 1% to “reflect the greater risks that they pose to the financial system.”⁴⁰ In July 2015, the Fed issued a final rule that began phasing in this capital surcharge in 2016.⁴¹ Each G-SIB is assigned a surcharge, added to the bank’s capital buffer, whose size is based on a formula intended to reflect its systemic importance. Under the rule, the capital surcharge can be between 1% and 4.5%. The Fed stated that under its rule, most G-SIBs would face a higher capital surcharge than required by Basel III. For October 2025, the surcharge varied between 1% and 4.5%.⁴²

Stress Tests, Capital Planning, and the Stress Capital Buffer

Large banks’ capital requirements are partly determined by stress tests, capital planning, and the stress capital buffer (SCB)—policies that work together to ensure that large banks have enough capital to survive a crisis. Title I of the Dodd-Frank Act required (1) company-run stress tests for any (bank or nonbank) financial firm with more than \$10 billion in assets, which P.L. 115-174 raised to more than \$250 billion in assets (with Fed discretion to apply to financial firms with between \$100 billion and \$250 billion in assets); and (2) Fed-run (or “supervisory”) stress tests

³⁶ In response to the rapid increase in safe assets on bank balance sheets during the pandemic, the banking regulators provided temporary SLR relief by excluding Treasury securities and balances held at the Fed from the denominator. That relief expired at the end of March 2021, although bank balance sheets still remain larger than before the pandemic. Board of Governors of the Federal Reserve System et al., “Regulators Temporarily Change the Supplementary Leverage Ratio to Increase Banking Organizations’ Ability to Support Credit to Households and Businesses in Light of the Coronavirus Response,” press release, May 15, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200515a.htm>.

³⁷ For more information, see CRS In Focus IF13078, *Bank Capital Requirements and Treasury Market Resiliency*, by Marc Labonte.

³⁸ Paul Cochran et al., “Dealers’ Treasury Market Intermediation and the Supplementary Leverage Ratio,” *FEDS Notes*, August 3, 2023, <https://www.federalreserve.gov/econres/notes/feds-notes/dealers-treasury-market-intermediation-and-the-supplementary-leverage-ratio-20230803.html>.

³⁹ Basel Framework, “Leverage Ratio Requirements for Global Systemically Important Banks,” March 27, 2020, https://www.bis.org/basel_framework/chapter/LEV/40.htm?inforce=20230101&published=20200327.

⁴⁰ Bank for International Settlements, *Basel III Summary Table*, <http://www.bis.org/bcbs/basel3/b3summarytable.pdf>.

⁴¹ Federal Reserve, “Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies,” 80 *Federal Register* 49082, August 14, 2015, <https://www.federalreserve.gov/newsevents/press/bcreg/20150720a.htm>.

⁴² Federal Reserve, *Large Bank Capital Requirements*, September 2025, <https://www.federalreserve.gov/publications/files/large-bank-capital-requirements-20250829.pdf>.

for any BHC or nonbank SIFI with more than \$50 billion in assets, which P.L. 115-174 raised to more than \$100 billion in assets.⁴³

Stress tests attempt to project the losses that banks would suffer under a hypothetical deterioration in economic and financial conditions to determine whether banks would remain solvent in a future crisis. Unlike general capital requirements that are based on current asset values, stress tests incorporate an adverse scenario that focuses on the bank's projected asset values and credit losses based on specific areas of concern each year. For example, in 2026, the scenario is "a severe global recession with heightened stress in both commercial and residential real estate markets, as well as in corporate debt markets."⁴⁴

Under the capital planning rule, each bank must submit a capital plan to the Fed annually. The capital plan must include a projection of the expected uses and sources of capital, including planned debt or equity issuance and dividend payments.

Since 2020, stress test losses have been incorporated into capital requirements for large banks through the SCB.⁴⁵ The SCB requires banks to hold enough capital to cover stress test losses and dividends or 2.5% of RWAs, whichever is larger.⁴⁶ In other words, the SCB is at least as large as the CCB, which smaller banks must comply with.

Countercyclical Capital Buffer (CCYB)

The banking regulators also issued a final rule implementing a Basel III CCYB, which now applies to Category I, II, and III banks. The countercyclical buffer requires these banks to hold more capital than other banks when regulators believe that financial conditions make the risk of losses abnormally high. In normal times, the countercyclical buffer is to be set at zero, but in high-risk circumstances, it could be set as high as 2.5%.⁴⁷ In practice, it has always been set at zero since inception.

Total Loss Absorbing Capacity

The Fed issued a 2017 final rule implementing a total loss-absorbing capacity (TLAC) requirement for U.S. G-SIBs and U.S. operations of foreign G-SIBs effective at the beginning of

⁴³ In addition to reducing the number of firms subject to stress testing, P.L. 115-174 also reduced the number of stress test scenarios and the frequency of company-run stress tests from semiannually to periodically. The Fed also reduced the frequency of Fed-run stress tests for banks with between \$100 billion and \$250 billion to every other year in 2019. Banks subject to stress tests every other year use those results to determine their capital requirements for two years. Federal Reserve, "Federal Reserve Board Releases Scenarios for 2019 Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test Exercises," press release, February 5, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190205b.htm>.

⁴⁴ Federal Reserve, "Federal Reserve Board Finalizes Hypothetical Scenarios for Its Annual Stress Test and Votes to Maintain the Current Stress Test-Related Capital Requirements Until Public Feedback Can Be Considered," press release, February 4, 2026, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20260204a.htm>.

⁴⁵ Prior to 2020, large banks had to separately comply with the CCB and hold enough capital above minimums to meet stress test losses, planned capital distributions, and projected balance sheet growth. The pre-2020 requirements required banks to hold more capital than the stress capital buffer (SCB).

⁴⁶ For banks subject to the advanced approach, the 2.5% CCB remains for the advanced approach capital requirements. The SCB applies to the standardized approach capital requirements.

⁴⁷ Federal Reserve, "Regulatory Capital Rules: The Federal Reserve Board's Framework for Implementing the U.S. Basel III Countercyclical Capital Buffer," 81 *Federal Register* 63682, September 16, 2016, <https://www.federalreserve.gov/newsevents/press/bcreg/20160908b.htm>.

2019.⁴⁸ The rule requires U.S. G-SIBs to hold TLAC equal to at least 18% of RWA and 7.5% of unweighted assets (including off-balance-sheet exposures) at the holding company level. TLAC is composed of Tier 1 capital and a minimum amount of long-term debt (equal to the greater of 2.5% plus 50% of the Method 1 G-SIB surcharge of unweighted assets including off-balance-sheet exposures or 6% plus the G-SIB surcharge of RWA) issued by the holding company.⁴⁹ (Tier 1 capital held to meet other capital requirements counts toward the TLAC requirement up to the eligible limit.) In addition, G-SIBs are subject to a TLAC buffer.⁵⁰ If TLAC fell below the buffer level, the G-SIB would face restrictions on capital distributions and discretionary bonuses. TLAC requirements do not require banks to hold more capital but rather can be met through additional capital or eligible long-term debt.

TLAC is intended to make these equity and debt holders absorb losses by writing off existing equity and converting debt to equity in the event of the firm's insolvency, a process referred to as bank "bail ins." This furthers the policy goal of avoiding taxpayer bailouts of large financial firms.

Dodd-Frank Emergency Requirements

For banks with more than \$250 billion in assets, the Dodd-Frank Act imposed an emergency limit of 15-to-1 on the bank's ratio of liabilities to equity capital (sometimes referred to as a leverage ratio, although this definition differs from the leverage ratio that applies to all banks).⁵¹ The ratio is applied only if a bank receives written warning from FSOC that it poses a "grave threat to U.S. financial stability," and it ceases to apply when the bank no longer poses a grave threat. To date, this provision has never been triggered.

The Dodd-Frank Act also requires the Fed to "establish a series of specific remedial actions" to reduce the probability that a bank with more than \$250 billion in assets experiencing financial distress will fail. Early remediation is the principle that financial problems at banks should be addressed early before they become more serious. This establishes a requirement for BHCs similar in spirit to the prompt corrective action requirements that apply to insured depository

⁴⁸ 12 C.F.R. Chapter II, Subchapter A, Part 252. Federal Reserve, "Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations," 82 *Federal Register* 8266, January 24, 2017, <https://www.federalregister.gov/documents/2017/01/24/2017-00431/total-loss-absorbing-capacity-long-term-debt-and-clean-holding-company-requirements-for-systemically>.

⁴⁹ Capital required by total loss-absorbing capacity (TLAC) is not in addition to capital required under standard capital requirements, and standard capital requirements are the same or higher than TLAC. However, TLAC capital must be issued by the holding company, whereas banks must meet standard capital requirements at both the depository subsidiary level and the holding company level. Some banks might have to hold more capital to meet both of these requirements simultaneously.

⁵⁰ The long-term-debt requirement for unweighted assets and the TLAC leverage buffer were reduced in 2025 to parallel the reduction in the enhanced supplementary leverage ratio. See OCC et al., "Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies," 90 *Federal Register* 30780, July 10, 2025, <https://www.govinfo.gov/content/pkg/FR-2025-07-10/pdf/2025-12787.pdf>.

⁵¹ 12 C.F.R. §225.220. Federal Reserve, "Enhanced Prudential Standards," 79 *Federal Register* 17240, March 27, 2014, <https://www.gpo.gov/fdsys/pkg/FR-2014-03-27/pdf/2014-05699.pdf>. Unlike the leverage ratio found in Basel III, this emergency ratio is based on liabilities instead of assets. It is calculated as total liabilities relative to total equity capital minus goodwill. This ratio is inverted compared with the leverage ratio—capital is in the numerator rather than the denominator.

subsidiaries. The Fed issued a proposed rule in 2011 to implement this provision that to date has not been finalized.⁵²

Summary of Large Bank Capital Requirements

Table 7 summarizes the applicability of the EPR requirements discussed in this section of the report.

Table 7. EPR Capital-Related Requirements

Requirement	Category I (G-SIBs)	Category II (> \$700B assets or see notes)	Category III (> \$250B or see notes)	Category IV (other \$100B- \$250B)
Company-run stress tests	annual	annual	biannual	none
Fed-run stress tests	annual	annual	annual	biannual
Capital plan	annual	annual	annual	annual
Emergency 15-to-1 debt-to-equity ratio	applies	applies	applies	none
Stress capital buffer	applies	applies	applies	applies
SLR	more stringent eSLR applies	applies	applies	not required
Advanced approaches	applies	applies	not required	not required
Countercyclical capital buffer	applies	applies	applies	none
Total loss absorbency capacity	applies	none	none	none
G-SIB capital surcharge	applies	none	none	none

Source: CRS.

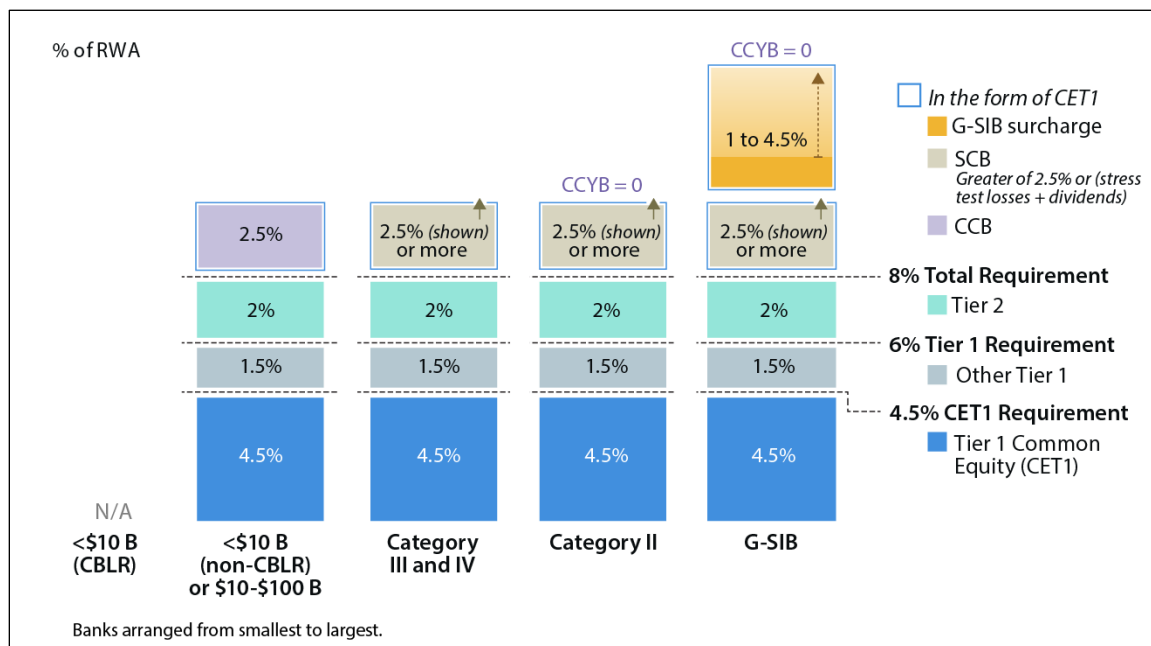
Notes: SLR = supplementary leverage ratio, eSLR = enhanced supplementary leverage ratio, G-SIB = Global Systemically Important Bank. Banks under \$700 billion in assets are ranked as Category II if they have over \$75 billion in cross-jurisdictional activity. Banks under \$250 billion in assets are ranked as Category III if they have more than \$75 billion in nonbank assets, weighted short-term wholesale funding, or off-balance-sheet exposure. For brevity, this table does not specify whether each requirement is applied to a foreign bank's intermediate holding company or total U.S. operations.

Summary of Risk-Weighted and Leverage Capital Requirements

The basic capital requirements discussed in this report are summarized in **Figure 1** for risk-weighted requirements and **Figure 2** for leverage requirements.

⁵² Federal Reserve, "Enhanced Prudential Standards and Early Remediation Requirements," 77 *Federal Register* 594, January 5, 2012, <https://www.gpo.gov/fdsys/pkg/FR-2012-01-05/pdf/2011-33364.pdf>.

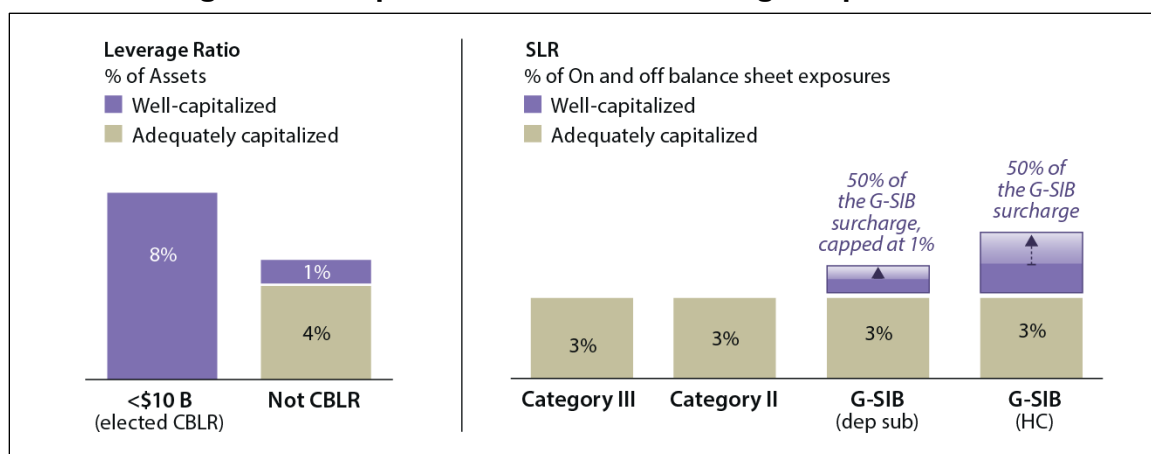
Figure 1. Adequate Risk-Weighted Prompt Corrective Action Requirements and Buffers



Source: CRS based on bank regulatory capital rules.

Notes: B = billion; CCB = capital conservation buffer; G-SIB = Global Systemically Important Bank; SCB = stress capital buffer. Banks can use Common Equity Tier 1 (CET1) capital to meet other Tier 1 requirements and any Tier 1 capital to meet Tier 2 requirements. See text for definitions. Regulators have set the countercyclical capital buffer (CCYB) at zero since its introduction but have the ability to raise it above zero. For capital requirements for community bank leverage ratio (CBLR) banks, see **Figure 2**.

Figure 2. Prompt Corrective Action Leverage Requirements



Source: CRS based on bank regulatory capital rules.

Notes: B = billion; CBLR = community bank leverage ratio; dep sub = depository subsidiary; G-SIB = Global Systemically Important Bank; SLR = supplementary leverage ratio. Holding company (HC) requirement is a required buffer, not a prompt corrective action requirement. See text for other definitions.

Policy Issues

Since the Basel process began, there has been debate over (1) whether capital requirements should be set higher or lower and (2) what role leverage requirements should play compared to risk-weighted requirements.

Should Capital Levels Be Higher or Lower?

Banks often complain that capital requirements are too high, whereas their critics argue that they are not high enough.⁵³ But what is the optimal level for capital requirements? This is not a straightforward question to answer. As a thought experiment, if leverage requirements were set at 100%, no bank would ever fail. But since capital is a more expensive funding source than debt or deposits, some argue this would lead to banks providing too little credit and economic activity moving outside the banking system.⁵⁴ (Whether those risks would still be a policy concern once outside the banking system would be another factor to consider in setting capital requirements, as many nonbank financial firms do not face comparable capital requirements.) Theoretically, capital requirements could be designed to achieve the goals of safety and soundness and financial stability with the least distortion in specific economic activities. They would be set high enough that, along with other prudential requirements, bank failures would not be frequent enough to cause systemic risk (which imposes economic costs) or require taxpayer support.⁵⁵ But they would not be set so high that the societal benefit of reduced risk exceeds the societal costs associated with reduced credit intermediation.⁵⁶

Others might argue that regulation could be replaced by market discipline—private debt holders and depositors might be expected to independently gravitate to well-capitalized banks, as such banks maximize the chance that their obligations would be honored, in which case regulatory requirements could be viewed as redundant. But in the presence of the taxpayer safety net, these incentives are blunted. For example, insured depositors face limited risk that they will suffer losses if their bank fails. Further, because an individual bank (or its creditor) does not price in how its failure would affect financial stability, private costs are not aligned with social costs.⁵⁷ As a result of these two factors, banks would not be expected to hold enough capital voluntarily, and thus some argue capital requirements would be necessary to achieve a socially optimal outcome.

In addition, capital levels are pro-cyclical (meaning capital declines when credit losses rise during recessions and rises when credit losses decline in booms), so capital adequacy is not meaningfully tested until a downturn, and it is tested for resiliency against financial instability even less

⁵³ Anat R. Admati et al., *Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity Is Not Expensive*, working paper, March 23, 2011, <https://gsbapps.stanford.edu/researchpapers/library/RP2065R1&86.pdf>; Greg Baer and Francisco Covas, “As U.S. Regulators Implement the 2017 Basel Accord, It’s Time for a Reality-Based Assessment of Current Capital Levels,” Bank Policy Institute, November 10, 2022, <https://bpi.com/as-u-s-regulators-implement-the-2017-basel-accord-its-time-for-a-reality-based-assessment-of-current-capital-levels/>.

⁵⁴ This thought experiment could be expanded to address the extent to which the inexpensive provision of deposit services in the current system provides a social benefit.

⁵⁵ BCBS, *An Assessment of the Long-Term Economic Impact of Stronger Capital and Liquidity Requirements*, August 2010, <https://www.bis.org/publ/bcbs173.pdf>.

⁵⁶ Although adjusting capital requirements results in a trade-off between risk and credit availability at moderate capital levels, if capital requirements were below some minimal threshold, raising capital requirements could boost credit availability over time by delivering a more stable banking system.

⁵⁷ Because banks that are “too big to fail” pose more systemic risk and more potential strain on the safety net than small banks do, the argument would be that capital requirement for them should theoretically be set higher than for small banks to align with their social costs.

frequently.⁵⁸ After the fact, the failure of 489 banks from 2008 to 2013 demonstrates that capital requirements were too low (or at least overall prudential regulation was not strict enough) before Basel III.⁵⁹ While only 19 banks failed from 2018 to 2026, three of these failures (in 2023) were among the largest failures in U.S. history. While the smaller number of failures may suggest capital levels are adequate or even more than sufficient, these three large bank failures have sparked debate over whether and how the capital framework for larger, more complex institutions might be amended. Further, the answer to the normative question of whether current capital requirements are too high, too low, or about right would need to be modeled based on theory and underlying assumptions about the societal costs and benefits associated with capital requirements. Studies have reached different conclusions about optimal capital levels because they rely on different theory and underlying assumptions.⁶⁰

Another major point of debate is whether capital requirements should be simpler or more complex. Over time, capital requirements have become more complex and sophisticated as the business of banking has become more complex and more sophisticated analytical tools have been developed to model risk. Yet simple rules have lower compliance costs,⁶¹ and some economists argue that simple rules are more resilient in the face of economic uncertainty.⁶² If risk weighting is accurate, it improves efficiency by accurately matching capital to risk, but if inaccurate, it reduces efficiency by drawing too much bank funding to activities with artificially low risk weights and too little to activities with artificially high risk weights. Artificially low risk weights on MBS and other securitized products encouraging banks to hold those products in the run up to the financial crisis is an example of how capital requirements can backfire and contribute to the financial instability that they are intended to prevent. Because risks are frequently not revealed until downturns, these inaccuracies could be in place for several years before they become obvious.

Binding Requirements

Over the past several decades, capital regulations have evolved to account for more complex risks in the marketplace. For example, capital requirements were once based on city population, then deposit volume, then total assets, and now RWAs (see the **Appendix**). However, one somewhat recent trend has been the return to simpler leverage measures of capital requirements either in addition to or, in some cases, instead of prior risk-weighting schemes. For example, banks that opt in to the CBLR are no longer subject to risk-weighted capital requirements.⁶³ In cases where it replaces risk weighting, a leverage measure is used to simplify regulatory requirements. But for

⁵⁸ Further, capital requirements could exacerbate downturns—if banks make fewer loans during downturns to stop themselves from falling below capital requirements, it would further decrease economic activity.

⁵⁹ Data available at FDIC, “Bank Failures in Brief—Summary,” <https://www.fdic.gov/bank/historical/bank/>.

⁶⁰ Simon Firestone et al., *An Empirical Economic Assessment of the Costs and Benefits of Bank Capital in the US*, Federal Reserve, Working Paper 2017-034, <https://www.federalreserve.gov/econres/feds/files/2017034pap.pdf>; Skander J. Van den Heuvel, *The Welfare Effects of Bank Liquidity and Capital Requirements*, Federal Reserve, November 2022, <https://www.federalreserve.gov/econres/feds/the-welfare-effects-of-bank-liquidity-and-capital-requirements.htm>; and BCBS, *An Assessment of the Long-Term Economic Impact of Stronger Capital and Liquidity Requirements*.

⁶¹ Small banks may face disproportionately higher compliance costs, and so the benefits of simpler rules may be greater for them.

⁶² Andrew G. Haldane, *The Dog and the Frisbee*, speech, August 31, 2012, <https://www.bis.org/review/r120905a.pdf>; and Karen Petrou, *A Holistic Construct for Bank Regulatory Capital*, July 6, 2022, <https://fedfin.com/wp-content/uploads/2022/07/FedFin-Issue-Brief-A-Holistic-Construct-for-Bank-Regulatory-Capital.pdf>.

⁶³ See the section entitled “Community Bank Leverage Ratio.”

many banks, simpler measures such as leverage ratios are intended to supplement risk-weighted schemes, and in doing so, they act as a hedge against any particular market risk.

For decades, the guiding principle of capital regulation is that a riskier bank should hold more capital. However, leverage ratios serve as a sort of regulatory hedge against the chance that regulators misappropriated risk weight categories or that an unforeseen risk emerged that risk weights did not properly capture and eroded capital adequacy. Further, leverage ratios act as a “belt and suspenders” approach to capital regulation, effectively guarding against the risk of a particular institution as well as the potential systemic impact a larger asset portfolio may have on the financial system should it succumb. Leverage ratios also proved to be more transparent and therefore instilled more confidence during financial crises.

When banks face multiple capital requirements, the minimum amount of capital that they are required to hold is determined by whichever capital requirement is the “binding” one.⁶⁴ Issues can arise when the combination of risk-weighted ratios and leverage ratios does not result in capital being held against the riskiest behavior. For example, if a bank’s leverage requirement compels it to hold more capital than its risk-weighted requirement, the size of the bank binds the bank’s capital decisions rather than the riskiness of its assets. At that point, capital regulation is no longer based on the principle of matching risk with capital, and it has the potential to create perverse incentives for banks.⁶⁵ For example, under a purely risk-based regime, if two banks had the same assets but one held much riskier assets than the other did, then the bank with the riskier asset portfolio would have to hold more capital. But if the leverage requirement is the binding requirement, all assets require the same amount of capital (at least up to the point where they would hold an equal amount of capital under either risk-based or leverage regimes), so there is less incentive to hold safe assets.

By creating the CBLR, Congress explicitly allowed smaller banks to choose simplicity over risk sensitivity. For non-CBLR banks, leverage ratios were also more likely to be binding, particularly among the largest institutions over the past decade. This occurred because of the growth in balance sheet assets over that period (especially during the pandemic⁶⁶) and because of enhanced prudential standards—especially for the G-SIBs until the eSLR was reformed in 2025. This influenced capital formation among banks, making balance sheet size a more important determinant of many banks’ capital position than their risk profiles. The regulators lowered the eSLR and the CBLR to make risk-based standards more likely to be the binding requirement for G-SIBs and smaller banks, respectively, while reducing capital requirements.⁶⁷ Alternatively, risk-based requirements could have been raised to return them to the binding requirement without reducing the total amount of capital that banks were required to hold.

⁶⁴ The binding requirement will vary from bank to bank—and possibly over time for a given bank—depending on the types of capital and assets it holds. Typically, a bank aims to hold enough capital to always stay comfortably above whatever amount is required by the binding ratio. It nevertheless must take into account whichever requirement is binding in all its actions. In reality, the binding requirement is the one that costs the bank the most to hold—for example, if a bank’s RWA were such that it was required to hold \$8 million in total capital, and its total assets were such that it had to hold \$7 million in Tier 1 to meet its leverage ratio requirements. It is possible that the \$7 million in Tier 1 cost the bank more to raise than the \$6 million in Tier 1 plus \$2 million in Tier 2 capital (\$8 million in total) cost to raise.

⁶⁵ Karen Petrou, *A Holistic Construct for Bank Regulatory Capital*, July 6, 2022, <https://fedfin.com/wp-content/uploads/2022/07/FedFin-Issue-Brief-A-Holistic-Construct-for-Bank-Regulatory-Capital.pdf>.

⁶⁶ The regulators provided temporary relief to banks subject to the SLR during the pandemic by exempting Treasury securities and bank reserves from the SLR. This relief expired in March 2021.

⁶⁷ Regulators could not reduce the leverage ratio below 4% without a legislative change because the Collins Amendment prohibits regulators from setting capital requirements below those in place in 2010.

Regulatory Proposals

New leadership at the bank regulators appointed by President Trump has proposed a series of rules modifying capital requirements.⁶⁸ This section reviews three proposed rules, issued by the bank regulators on the same day in March 2026, that would alter capital requirements. It does not include proposed rules issued under previous leadership that were never finalized.

Basel III “Endgame”

In December 2017, the BCBS issued a last round of Basel III reforms that is sometimes colloquially referred to as the “Basel III Endgame.” According to the BCBS,

A key objective of the revisions ... is to reduce excessive variability of risk-weighted assets (RWAs) ... [and] help restore credibility in the calculation of RWAs by: (i) enhancing the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk, which will facilitate the comparability of banks’ capital ratios; (ii) constraining the use of internally-modelled approaches; and (iii) complementing the risk-weighted capital ratio with a finalised leverage ratio and a revised and robust capital floor.⁶⁹

The federal banking regulators issued a joint proposal to implement the Endgame changes in July 2023 for banks with \$100 billion or more in assets, along with certain other changes in response to issues that arose when three large banks failed in 2023.⁷⁰ The 2023 proposal was opposed by trade groups and some Members of Congress.⁷¹ Reportedly, negotiations among regulators in 2024 did not yield consensus across agencies on a revised proposal, and the rule was not finalized under previous leadership.⁷²

In 2026, the 2023 proposal was rescinded and a new Endgame proposal was issued under new agency leadership appointed by President Trump. The proposal is described as generally consistent with the BCBS document but differs “where appropriate ... to reflect specific characteristics” of the U.S. financial and legal system. According to the regulators, the proposal would “improve the regulatory capital framework for covered banking organizations by

⁶⁸ The Vice Chair for Supervision is responsible for regulatory policy at the Fed. President Trump selected Michelle Bowman to be the Vice Chair for Supervision in 2025.

⁶⁹ BCBS, *Basel III: Finalising Post-Crisis Reforms*, December 2017, <https://www.bis.org/bcbs/publ/d424.pdf>.

⁷⁰ OCC et al., “Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking Organizations with Significant Trading Activity,” 88 *Federal Register* 64028, September 18, 2023, <https://www.govinfo.gov/content/pkg/FR-2023-09-18/pdf/2023-19200.pdf>. The proposal would have also required banks with over \$100 billion in assets to include unrealized capital gains and losses on available-for-sale (AFS) debt securities in calculating their capital levels. (This was repropounded in 2026 in the standardized approach proposal rather than the Endgame proposal; see the section entitled “New Requirements for AOCL.”) The proposal would have also extended two capital requirements—the SLR and countercyclical capital buffer—to all banks with over \$100 billion in assets. For more information on the 2023 proposal, see CRS Report R47855, *Bank Capital Requirements: Basel III Endgame*, by Marc Labonte and Andrew P. Scott.

⁷¹ U.S. Congress, House Committee on Financial Services, *Implementing Basel III: What’s the Fed’s Endgame?*, hearing, 118th Cong., 1st sess., September 23, 2023, <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408961>.

⁷² Those revisions were never publicly released. Claire Williams and Kyle Campbell, “Inside the Impasse Erupting on the FDIC Board Over Basel,” *American Banker*, September 20, 2024, <https://www.americanbanker.com/news/inside-the-impasse-erupting-on-the-fdic-board-over-basel>.

enhancing its risk sensitivity and consistency, as well as by simplifying core components of its design.”⁷³

The 2026 proposal made substantial changes to the 2023 proposal. Both proposals would replace the advanced approaches, which apply to Category I and II banks, with an *expanded risk-based approach*. The 2023 proposal would have extended the new framework to Category III and Category IV banks, as well as IHCs, whereas the 2026 proposal would apply only to Category I and II banks (and any bank that voluntarily choose to adopt it).

The 2026 proposal would eliminate the requirement that Category I and II banks measure their required capital under two methods, the standardized approach and advanced approaches. It would revise methodologies for measuring operational risk, securitization activity, market risk, credit risk, and equity risk.⁷⁴ In other words, it largely addresses the capital markets activities of banks, not traditional lending activities. The proposal reduces the use of banks’ internal models to calculate risk but retains internal models for market risk. The market risk portion of the rule would also apply to any bank with significant trading activity.

For Category I and II banks, the 2026 proposal would increase required CET1 by 1.2% at the holding company level, whereas the 2023 proposal would have increased required CET1 by 19% at the holding company level. Although the 2026 Endgame proposal would increase required capital, when taken together with the various capital rules proposed and finalized since 2025, the net impact would decrease required capital (see the section below entitled “Joint Effect of Recent Rules and Proposals on Required Capital”). The 2026 Endgame proposal would also decrease the amount of capital held by the depository subsidiaries of Category I and II Banks, which means that those banks could shift capital from the subsidiary to the holding company. It does not mean that they could reduce how much capital they hold overall because required capital is higher at the holding company level. As long as the Fed’s “source of strength” requirements⁷⁵ work as intended—which some are skeptical of⁷⁶—shifting capital from the subsidiary to the holding company does not increase the likelihood of failure.

Standardized Approach

In March 2026, on the same day as the new Endgame proposal was released, the bank regulators issued a “standardized approach” proposal that would apply to all banks except (1) Category I or II banks or (2) banks that opt into the CBLR.⁷⁷ The proposal would both change specific risk weights and what counts toward a bank’s capital. There are three general elements in the standardized approach proposal: (1) revised risk-based capital treatment of certain exposures, (2) modified definition of regulatory capital for mortgage servicing assets (MSAs), and (3) new requirements for Category III and IV banks with respect to AOCI. For the banks subject to the

⁷³ Comptroller of the Currency et al., “Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations,” 91 *Federal Register* 14952, March 27, 2026, <https://www.federalregister.gov/documents/2026/03/27/2026-05959/regulatory-capital-rule-category-i-and-ii-banking-organizations-banking-organizations-with>.

⁷⁴ Credit risk includes default risk on assets such as loans and bonds. Operational risk covers risks related to internal controls and external events (e.g., losses from fraud, cyberattacks, or litigation.) The market risk framework covers the risk of price movements in the value of assets and includes a credit valuation risk framework for derivatives.

⁷⁵ For more information on source of strength, see CRS Report R48291, *Bank Holding Companies: Background and Issues for Congress*, by Marc Labonte.

⁷⁶ Federal Reserve, “Statement on Enhanced Supplementary Leverage Ratio Proposal by Governor Michael S. Barr,” press release, June 25, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20250625.htm>.

⁷⁷ Comptroller of the Currency et al., “Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets,” 91 *Federal Register* 15338, March 27, 2026.

proposal, the first two elements would cause required capital to decline by 6.4% to 7.9% (depending on the category of bank), not including the proposed changes to the treatment of AOCI. The changes to AOCI would have the effect of increasing required capital by 2.6% for Category III and IV banks.⁷⁸

Revisions to Risk Weights for Certain Exposures

The proposal amends parts of the current standardized capital rule for determining RWAs. The proposal would change the risk weights for residential mortgage exposures, corporate exposures, and certain exposures considered as “other assets.”

While the definition of a residential mortgage exposure would remain unchanged,⁷⁹ the proposal would create a range of risk weights for eligible residential mortgage exposures based on loan-to-value (LTV) ratios.⁸⁰ The risk weights assigned to each exposure would depend on the LTV of the mortgage exposure and whether or not the mortgage is dependent on the cash flows of the real estate, and, on average, risk weights would be lower if they are not dependent on the cash flows of the real estate.⁸¹

For corporate exposures,⁸² risk weights would be reduced from 100% to 95%. Further, the risk weight applicable to all assets considered “other assets” would be reduced from 100% to 90%.

Treatment of Mortgage Servicing Assets (MSAs)

MSAs are a source of revenue for a bank as it retains the right to service a mortgage and collect fees for doing so. That right to collect fees is recorded as an asset on the bank’s balance sheet. The current capital rule allows banks to include MSAs in their calculation of capital; however, when calculating CET1 capital, covered banking organizations must deduct amounts of MSAs that exceed 25% of their total CET1. Under the proposal, covered banking organizations would no longer be required to deduct any amount of MSAs from CET1 capital. Instead, MSAs would be subject to a 250% risk weight, consistent with the treatment in the current capital rule for MSAs that do not exceed the deduction threshold. This change would effectively make it more attractive for banks to retain MSAs by giving them more favorable capital treatment.⁸³

New Requirements for AOCI

Under the standardized proposal, Category III and IV banks (see **Table 6**) would have to include most parts of an accounting category called AOCI in CET1 capital, which would align capital rules with the treatment of AOCI under generally accepted accounting principles. A notable component of AOCI to be included is unrealized capital gains and losses on AFS debt securities

⁷⁸ Comptroller of the Currency et al., “Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets,” 91 *Federal Register* 15338, March 27, 2026.

⁷⁹ Comptroller of the Currency et al., “Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets,” 91 *Federal Register* 15338, March 27, 2026.

⁸⁰ To be eligible to use this approach, a residential mortgage exposure would need to meet several requirements, including being secured by a property that is either owner-occupied or rented, not being 90 days or more past due or carried in nonaccrual status, and not being restructured or modified.

⁸¹ See Tables III.1 and III.2 in 91 *Federal Register* 15340.

⁸² A corporate exposure could be a debt obligation of a company, such as a loan made to a corporation.

⁸³ A similar change for Category I and II banks was included in the Endgame proposal discussed earlier in this section. See 91 *Federal Register* 14956, <https://www.federalregister.gov/d/2026-05959/page-14956>.

(e.g., corporate and government bonds).⁸⁴ Doing so would have the effect of increasing a bank's CET1 levels when it had unrealized capital gains and reducing CET1 when it had losses.

In 2012, the original Basel III proposal would have applied the AOCI requirement to all banks (and BHCs). The regulators argued that “unrealized losses could materially affect a banking organization's capital position ... and associated risks should be reflected in its capital ratios.”⁸⁵ Facing criticism from banks that this treatment would cause capital levels to be too volatile, the version of the rule finalized in 2013 applied the requirement only to advanced approach banks—at the time, banks with at least \$250 billion in assets or \$10 billion in on-balance-sheet foreign exposure. All other banks could permanently elect to opt out of this requirement.⁸⁶ Doing so is sometimes referred to as the “AOCI filter.”

In its 2019 regulation implementing EGRRCBA, the Fed reduced the number of banks subject to various EPR requirements, including limiting the AOCI requirement to only the nine Category I and II banks.⁸⁷ The 2023 Endgame proposal would have extended the AOCI requirement to any U.S. bank, BHC, or IHC with over \$100 billion in assets, similar to the 2026 standardized proposal.

The market value of securities held by banks fluctuates over time in response to changing interest rates, default risk, and so on. For banks that do not include AOCI, changes in market value are not reflected on their balance sheets. Unrealized losses on AFS securities have become a growing policy concern because they have exceeded \$98 billion for all banks since 2022, mainly as a result of the general increase in interest rates. In the 15 years before then, banks had unrealized gains or small losses.⁸⁸ Unrealized losses on securities played a major role in the failure of Silicon Valley Bank (SVB).⁸⁹ At the end of 2022, SVB had \$1.9 billion in AFS losses that would have been recognized in capital under AOCI, although most of SVB's securities were classified as *held to maturity* (HTM) as opposed to AFS and so would not have been affected by the proposal.⁹⁰

⁸⁴ Banks classify the debt securities they invest in as either *trading*, AFS, or *held to maturity*, depending on how likely the bank is to sell a security over a particular time frame. For AFS, a bank does not have current plans to sell but recognizes a possibility of selling before the security matures.

⁸⁵ OCC et al., “Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action,” 91 *Federal Register* 52811, August 30, 2012, <https://www.govinfo.gov/content/pkg/FR-2012-08-30/pdf/2012-16757.pdf#page=20>; Federal Reserve, “Federal Reserve Board Invites Comment on Three Proposed Rules Intended to Help Ensure Banks Maintain Strong Capital Positions,” press release, June 7, 2012, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20120607a.htm>.

⁸⁶ OCC and Board of Governors of the Federal Reserve System, “Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule,” 78 *Federal Register* 62018, October 11, 2013, <https://www.gpo.gov/fdsys/pkg/FR-2013-10-11/pdf/2013-21653.pdf>.

⁸⁷ Federal Reserve, “Federal Reserve Board Finalizes Rules That Tailor Its Regulations for Domestic and Foreign Banks to More Closely Match Their Risk Profiles,” press release, October 10, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191010a.htm>.

⁸⁸ FDIC data available at <https://www.fdic.gov/quarterly-banking-profile/qbp-all-fdic-insured-institutions-charts-and-data-first-quarter-2026.xlsx>.

⁸⁹ For more information, see CRS Insight IN12232, *Banks' Unrealized Losses, Part 2: Comparing to SVB*, by Marc Labonte.

⁹⁰ To a lesser extent, unrealized losses on securities also played a role in the failures of Signature and First Republic Banks. See FDIC, “FDIC's Supervision of Signature Bank,” April 28, 2023, p. 16, <https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf>; and Rachel Louise Ensign and Ben Eisen, “First Republic Bank Is Seized, Sold to JPMorgan in Second-Largest U.S. Bank Failure,” *Wall Street Journal*, May 1, 2023, <https://www.wsj.com/articles/first-republic-bank-is-seized-sold-to-jpmorgan-in-second-largest-u-s-bank-failure-5cec723>.

SVB had over \$100 billion in assets but was not a Category I or II bank, so it did not include AOCI in its capital levels but would have if the new proposal were in place.⁹¹

The proposed rule is limited in mitigating the risk posed by unrealized losses in two ways. First, it applies only to large banks. Second, it does not apply to securities classified as HTM.

G-SIB Surcharge

In 2023, on the same day as the Endgame proposal was released, the Fed proposed a rule to make changes to how the G-SIB surcharge is calculated.⁹² This proposal was never finalized.

In March 2026, on the same day as the new Endgame proposal was released, the Fed rescinded the 2023 G-SIB surcharge proposed rule and issued a new one modifying how the surcharge is calculated.⁹³ The new proposal makes several technical changes to the way that the surcharge is calculated, which would result in G-SIBs having a lower surcharge and thus having lower effective capital requirements than under the current methodology. For example, it reduces the weight of short-term wholesale funding in calculating the score, thereby reducing effective surcharges.

Currently, a bank's surcharge changes by 0.5 percentage point increments. This creates "cliff effects," where a bank faces significantly higher capital requirements when its score jumps to the next level. The proposal would also reduce the incremental surcharges from every 0.5 percentage points to every 0.1 percentage points so that changes in a bank's score lead to smaller changes in the surcharge. In addition, surcharges are currently a "point-in-time" measure based on end-of-year data. This gives banks an incentive to engage in balance sheet "window dressing" on the last day of the year to lower their scores. The proposal would change the measurement from year-end data to average data to reduce this tendency.

The 2023 and 2026 proposals included some similar changes, such as changing from point-in-time data to average data to calculate surcharges and reducing cliff effects. However, certain other changes in the 2026 proposal that tend to reduce the average surcharge were not included in the 2023 proposal. As a result, the Fed estimated that the 2023 proposal would have increased the average surcharge by 0.13 percentage points and required capital by \$13 billion (as of 2022), whereas the 2026 proposal would reduce the average surcharge by 0.4 percentage points and reduce required capital by \$23 billion or 10% (as of 2024).

Joint Effect of Recent Rules and Proposals on Required Capital

Figure 3 illustrates how much required capital across a bank's holding company would decline on average for each category of bank if the recent proposed and final rules discussed above went into effect unchanged (relative to the requirements previously in place in November 2025). As

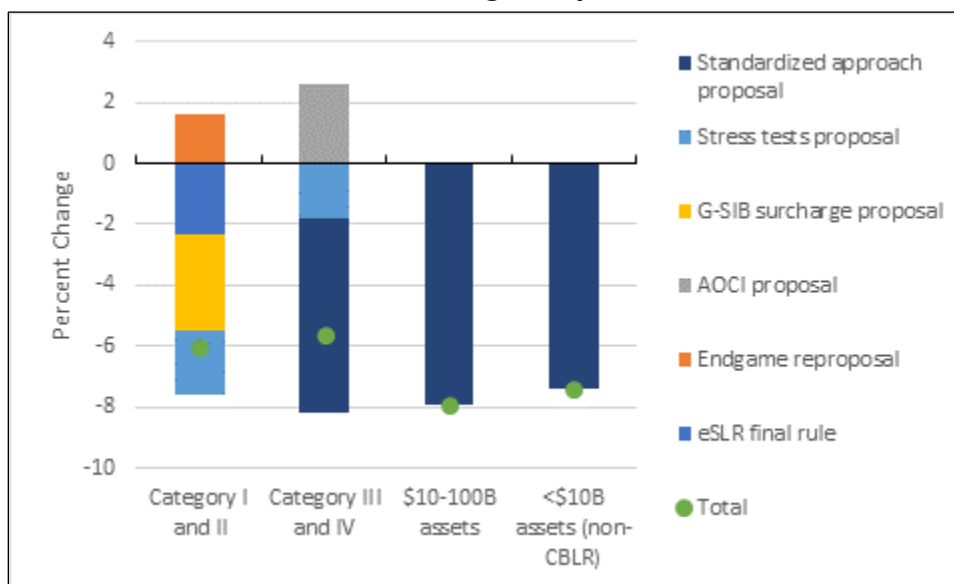
⁹¹ The Fed also reports that SVB would have had to start complying with the AOCI requirement in 2021 as an advanced approach bank had the 2019 tailoring rule not limited the AOCI requirement to Category I and II banks. Federal Reserve, *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank*, April 2023, <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>.

⁹² Board of Governors of the Federal Reserve System, "Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)," 88 *Federal Register* 60385, July 27, 2023, <https://www.federalregister.gov/documents/2023/09/01/2023-16896/regulatory-capital-rule-risk-based-capital-surcharges-for-global-systemically-important-bank-holding>.

⁹³ Federal Reserve, "Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)," 91 *Federal Register* 14908, March 27, 2026, <https://www.govinfo.gov/content/pkg/FR-2026-03-27/pdf/2026-05961.pdf>.

mentioned above, the regulators estimate that the cumulative effect of these rules would be to reduce required Tier 1 capital by 6% for Category I and II banks, 5.6% for Category III and IV banks, 7.9% for banks with \$10 billion to \$100 billion in assets, and 7.4% for banks with less than \$10 billion in assets that are not subject to the CBLR,⁹⁴ as explained in more detail below.⁹⁵ These are static estimates—if banks shift to activities with lowered risk weights in response to regulatory changes, the decline in capital could be greater. These estimates are also averages for the cohort—required capital will decline by more than average for some banks and less than average for others.

Figure 3. Cumulative Projected Effect of Recent Rules on Required Tier 1 Capital for Bank Holding Companies



Sources: Regulators' analysis in the proposed rules: Comptroller of the Currency et al., "Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets," 91 *Federal Register* 15367, March 27, 2026; Comptroller of the Currency et al., "Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations," 91 *Federal Register* 15101, March 27, 2026, <https://www.federalregister.gov/documents/2026/03/27/2026-05959/regulatory-capital-rule-category-i-and-ii-banking-organizations-banking-organizations-with>.

Notes: B = billion; G-SIB = Global Systemically Important Bank; eSLR = enhanced supplementary leverage ratio. Effects of the Endgame re-proposal on banks that are not in Category I or II are not shown. The accumulated other comprehensive income (AOCI) proposal was published in the standardized approach proposal. Banks under the community bank leverage ratio (CBLR) are not included in the figure, and the figure does not include capital relief provided for those banks under the final rule reducing the CBLR. For bank categories, see **Table 6**.

⁹⁴ For consistency, **Figure 3** shows the decline in capital at the holding company level. Many banks with less than \$10 billion in assets subject to the standardized approach do not have to comply with capital requirements at the holding company level, but the regulators report that the percentage change in capital for those banks at the bank subsidiary level is similar.

⁹⁵ As discussed above, banks are subject to multiple capital requirements at the holding company and subsidiary level. How much capital effectively declines under a regulatory change depends on how much it declines under a bank's binding requirement. Which requirement is binding varies by bank. The figure measures the change in required Tier 1 capital at the holding company level, but other measures would yield a different estimate. As discussed above, consolidated capital at the holding company level measures how much capital is available for the entire banking organization.

For Category I and II banks, the Basel III Endgame re-proposal⁹⁶ is projected to require banks to hold 1.6% more capital.⁹⁷ (This is less than the 2023 Basel Endgame proposal, which would have also applied to Category III and IV banks and would have increased required capital by 9% for Category I-IV banks.) However, three other recent rules (the final rule reducing the eSLR,⁹⁸ proposed changes to stress tests methodology that would effectively reduce stress test losses and thus the stress capital buffer, and the G-SIB surcharge proposal⁹⁹) would more than offset this increase in required capital, leading to a net decrease in required capital of 6%.

Category III and IV banks would be required, under the standardized approach proposal, to include most parts of AOCI in capital,¹⁰⁰ which would have the effect of increasing required capital by 2.6%. This increase is more than offset by the decrease in required capital from the rest of the standardized proposal and the proposed stress test changes, leading to a net decrease in required capital of 5.6% for Category III and IV banks.

Banks with less than \$100 billion but more than \$10 billion in assets are subject only to the standardized approach proposal. Qualifying banks with less than \$10 billion can choose between the CBLR, in which case their required capital is reduced by the recent CBLR final rule, and risk-weighted capital requirements, in which case they are subject to the standardized proposal. The recent CBLR rule also reduces required capital, but the regulators did not provide an estimate of the percentage reduction. For the banks subject to it, the largest source of decline in required capital (6.4% to 7.9%, depending on the group) is attributable to the standardized proposal, not including its changes to the treatment of AOCI.

If the proposed rules are finalized with modifications, it could cause the change in required capital shown in **Figure 3** to be higher or lower. In their comment letters, banks have generally called for modifications that would lead to a larger decline in capital than the proposals.¹⁰¹

⁹⁶ See the section entitled “Basel III “Endgame””

⁹⁷ The regulators report that the Basel endgame proposal would raise CET1 by 0.9% for banks subject to the market risk framework that are not Category I or II banks. This is not shown in **Figure 3**.

⁹⁸ See the section entitled “Supplementary Leverage Ratio.”

⁹⁹ See the section entitled “Standardized Approach.”

¹⁰⁰ See the section entitled “New Requirements for AOCI.”

¹⁰¹ See, for example, the comment letter on the Endgame proposal submitted jointly by Bank Policy Institute, the American Bankers Association, the Financial Services Forum, the U.S. Chamber of Commerce, and the Consumer Bankers Association, available at <https://bpi.com/wp-content/uploads/2026/06/Joint-Trades-Comment-on-Basel-Proposal-6.18.26.pdf>.

Appendix. Historical Capital Frameworks

U.S. capital standards have a long history featuring many fundamental changes in how they work, sometimes returning to approaches that had previously been discarded. Typically, financial crises create demand for new types of capital requirements in response to recent stress borne by the financial system. An example is the set of enhanced prudential standards first introduced in the years following the 2007-2009 financial crisis.

In the United States, capital standards for banks began as a simple minimum amount of gold or silver that bank owners were required to contribute to the bank in order for it to begin operations, and when national banks were first formed in the 19th century, those formation capital requirements were based on the population of the area where the bank was headquartered.¹⁰² Banks were then required to build additional capital levels referred to as “surplus accounts” equal to 20% of their formation capital requirements. This could be drawn down as banks incurred losses, but banks were not allowed to pay dividends until the surpluses were rebuilt. In the early 20th century, capital requirements were slowly modified to be based on the size of the bank’s operations rather than the geographic area it served. For example, in 1914, the OCC implemented a capital-to-deposits ratio for national banks, and by the 1930s, California, New York, Michigan, and Texas established capital requirements for state-chartered banks in proportion to their deposits.¹⁰³

When the FDIC was created in 1933, it required state-chartered banks to meet a minimum capital requirement equal to 10% of deposits.¹⁰⁴ After the FDIC began insuring deposits held at banks, however, deposit withdrawals became less risky, and asset losses became the primary focus for capital regulation.¹⁰⁵ In 1939, the FDIC shifted to a 10% capital-to-assets ratio requirement.

By the 1940s, banks invested heavily in U.S. Treasuries, which increased their asset holdings but meant their holdings comprised more “risk-free” instruments.¹⁰⁶ Regulators sought to “avoid penalizing banks for investing in these low-yield and ‘riskless’ assets”¹⁰⁷ by modifying capital requirements to deduct Treasury holdings from assets in the denominator of the capital-to-asset ratio calculations.¹⁰⁸ Slowly, capital adequacy began to be defined in terms of capital held against assets that were held for the purposes of earning a return, which were generally associated with greater risk than Treasuries and other risk-free assets.

¹⁰² The National Banking Act of 1864 sets an early example of formation capital requirements. At formation, banks were required to establish minimum capital levels such as \$50,000 for banks in cities with fewer than 6,000 people, \$100,000 for cities of fewer than 50,000 people, and \$200,000 for cities of more than 50,000 people. For more, see John Walter, “US Bank Capital Regulation: History and Changes Since the Financial Crisis,” *Federal Reserve Bank of Richmond Economic Quarterly*, vol. 105, no. 1 (First Quarter 2019), https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_quarterly/2019/q1/walter.pdf.

¹⁰³ Walter, “US Bank Capital Regulation.”

¹⁰⁴ The average capital-to-deposits ratio from 1920 to 1939 was 15.2%, suggesting that the minimum of 10% was not binding for many banks. See Walter, “US Bank Capital Regulation.”

¹⁰⁵ Karlyn Mitchell, “Capital Adequacy at Commercial Banks,” *Federal Reserve Bank of Kansas City Economic Review* (September/October 1984), <https://www.kansascityfed.org/documents/1049/1984-Capital%20Adequacy%20at%20Commercial%20Banks.pdf>.

¹⁰⁶ Walter, “US Bank Capital Regulation.”

¹⁰⁷ Malcolm Alfriend, “International Risk-Based Capital Standard: History and Explanation,” *Federal Reserve Bank of Richmond Economic Review* (November/December 1988), https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_review/1988/pdf/er740603.pdf.

¹⁰⁸ Mitchell, “Capital Adequacy at Commercial Banks.”

It was not until the 1950s that asset risk became a central feature of capital regulation. By that time, the Fed, FDIC, and OCC adopted an approach to measuring capital that established risk categories for different types of assets and different capital requirements within each category. Regulators modified this requirement by adding a liquidity test, which required more capital for less liquid institutions. Capital adequacy was largely viewed in terms of how much capital an institution had versus the amount required as determined by the adjusted risk approach.

However, while regulators adopted similar approaches to capital requirements, there was general disagreement over what assets to risk adjust, and by the 1960s, the OCC abandoned the risk adjustments “on the grounds that it was arbitrary and did not consider factors such as management, liquidity, asset quality, or earnings trends.”¹⁰⁹ Further, the three banking agencies disagreed on how to define *capital*. The Fed continued to define it as equity plus reserves for loan losses, while the FDIC and OCC allowed some forms of debt to count. It was not until the 1980s that the agencies began to coordinate capital requirements.¹¹⁰

In 1981, the banking agencies coordinated a new definition of *bank capital* and set joint standards for determining capital adequacy. The new definition comprised “primary capital” and “secondary capital.” *Primary capital* was defined as instruments that were not subject to redemption or retirement, such as common stock, reserves for loan losses, and other capital reserves. *Secondary capital* included nonpermanent forms of equity, such as redeemable preferred stock and subordinated debt. The regulators also created minimum levels of capital to determine capital adequacy for community banks and regional banks.¹¹¹ However, a federal appeals court ruled that regulators did not have the authority to impose cease-and-desist orders on banks with capital inadequacy as determined by capital ratios.¹¹² In 1983, Congress passed the International Lending Supervision Act (ILSA),¹¹³ which gave the agencies the authority to establish minimum capital standards and authorized them to enforce these capital standards.

Later in the 1980s, regulators amended the minimum requirements, establishing a simple primary capital-to-asset ratio of 5.5% and total capital of 6%. Because the ratio was a simple capital-to-asset calculation, banks began increasing their holdings of higher yielding assets, and because capital requirements applied only to balance sheet items, banks began to expand off-balance-sheet activity.¹¹⁴

In addition to granting authority to the agencies to establish and enforce capital standards, ILSA also stated that the Fed and Treasury should work with other countries to strengthen capital bases of banks involved in international lending. This laid the groundwork for the U.S. implementation

¹⁰⁹ Alfried, “International Risk-Based Capital Standard.”

¹¹⁰ While agency coordination is not inherently good or bad (for instance, regulators could coordinate a bad policy), industry has generally viewed disparate treatment of similar issues by the three federal banking agencies as burdensome, confusing, or creating an un-level playing field. Typically, bank regulators coordinate rulemaking on issues affecting all banks in some way.

¹¹¹ Larger institutions, referred to as “multinational banks,” were excluded from this measurement system until 1983, when the Fed set a minimum capital ratio of 5% for multinational banks. See Mitchell, “Capital Adequacy at Commercial Banks.”

¹¹² *First National Bank of Bellaire*, 697 F.2d at 681-682.

¹¹³ 12 U.S.C. §§3901 et seq.

¹¹⁴ Off-balance-sheet (OBS) activity refers to the operation of assets and liabilities that are not recorded on the balance sheet for accounting purposes. Examples of OBS assets include letters of credit, loan commitments, and transfers of financial assets; OBS liabilities include revolving underwriting facilities, certain contingent liabilities, and standby lines of credit. For more, see the FDIC examination manual at <https://www.fdic.gov/regulations/safety/manual/section3-8.pdf>.

of what became known as the Basel Accords, a prudential framework focused on (but not limited to) capital standards issued by the BCBS, an international standard setting body (see text box).

History of the Basel Committee

The Basel Committee was created in the wake of international financial market turmoil caused by the 1970 exchange rate crisis. After the collapse of Bretton Woods in 1973, many banks incurred large foreign currency losses. In response to these and other disruptions in the international financial markets, the central bank governors of the G-10 countries established a Committee on Banking Regulations and Supervisory Practices (later renamed the Basel Committee on Banking Supervision, or BCBS) at the end of 1974 to facilitate regular cooperation between its member countries on banking supervisory matters and to enhance financial stability.

In 1975, the BCBS issued a paper that came to be known as the “Concordat.” The Concordat set out principles for sharing supervisory responsibility for banks’ foreign branches, subsidiaries, and joint ventures between host and parent (or home) supervisory authorities. In May 1983, the Concordat was revised and re-issued as *Principles for the Supervision of Banks’ Foreign Establishments*.¹¹⁵

Capital adequacy soon became the main focus of the BCBS’s activities. In the early 1980s, the onset of the Latin American debt crisis heightened the BCBS’s concerns that the capital ratios of the main international banks were deteriorating at a time of growing international risks. This resulted in a broad consensus on a weighted approach to the measurement of risk both on and off banks’ balance sheets.

According to BCBS, “there was strong recognition within the Committee of the overriding need for a multinational accord to strengthen the stability of the international banking system and to remove a source of competitive inequality arising from differences in national capital requirements.” Following comments on a consultative paper published in December 1987, a capital measurement system commonly referred to as the Basel Capital Accord was approved by the G-10 governors and released to banks in July 1988.

As the financial system becomes more complex, regulators have updated capital requirements for banks. Since 1988, BCBS has issued three iterative frameworks, referred to as Basel I, II, and III. While the Basel frameworks (also referred to as “accords”) have no legal force in the United States, it is helpful to understand the BCBS approach because domestic regulators have chosen to closely align their rules—which are implemented through the notice-and-comment rulemaking process pursuant to the Administrative Procedure Act—with these frameworks. This choice is arguably predictable given that members of BCBS negotiate the rules together and that U.S. bank regulators are, as the representatives from the world’s largest economy and financial system, influential members. As such, BCBS standards likely reflect, at least in part and possibly significantly, the views and preferences of the U.S. agencies. A driving concern of the BCBS has historically been avoiding a “race to the bottom” in bank regulation—in particular, larger countries such as the United States concerned that small countries will enact lax standards to entice banks to locate in their jurisdictions.

Basel I

Basel I was established in 1988 and focused mainly on credit risk, establishing a classification system for risk weighting bank assets. It featured five risk categories of 0%, 10%, 20%, 50%, and 100%. Basel I proposed minimum capital equal to 8% of RWA. Capital comprised two forms: Tier 1 capital and Tier 2 capital. Tier 1 capital is the more loss absorbent type of capital and represents the basic funding of the bank. Tier 2 capital is less loss absorbent.

In 1989, the United States adopted Basel I and implemented a uniform regulatory capital system that required banking organizations to maintain regulatory capital against exposures both on and

¹¹⁵ BIS, “Principles for the Supervision of Banks’ Foreign Establishments (Concordat),” May 28, 1983, <https://www.bis.org/publ/bcbasc312.htm>.

off balance sheet.¹¹⁶ Exposures were assigned one of four categories of credit risk, which carried minimum capital charges ranging from 0% to 8%.

Signatories agreed to limit Basel I to internationally active banks. However, U.S. regulators applied the framework to all U.S. banking organizations. In the 1990s, it became apparent that Basel I had some limitations, particularly for larger banks. For example, the Basel I rules required the same amount of regulatory capital against all unsecured corporate loans and bonds regardless of actual risk and treated almost all first-lien residential mortgage exposures as equally risky. This provided an incentive for banking organizations to shed lower-risk exposures and acquire or retain higher-risk exposures within some asset categories. The Basel I–based rules also did not take into account important elements of credit-risk mitigation—such as most forms of collateral, many guarantees and credit derivatives, and the maturity and seniority of exposures—and, thus, may have blunted incentives for banks to reduce or otherwise manage risk. In addition, the Basel I–based rules were considered particularly inadequate for dealing with capital markets transactions, such as repurchase agreements, securities borrowing and lending, margin loans, and over-the-counter derivatives. As these examples illustrate, simple rules have limitations that regulators subsequently attempted to address through increasingly complex rules. In response, BCBS initiated a revision to the capital framework, which became Basel II.¹¹⁷

Basel II

In June 2004, BCBS introduced a more risk-sensitive capital adequacy framework, Basel II, designed to promote improved risk measurements and to better align capital requirements with risk. Basel II included three pillars: minimum regulatory capital requirements, supervisory review of capital adequacy, and market discipline through enhanced public disclosure.¹¹⁸

Under Basel II, a banking organization calculated risk-based capital requirements for exposure to credit risk and operational risk. For measuring credit risk, Basel II included three approaches: a standardized approach, which modifies and enhances the Basel I approach, and two internal ratings-based approaches—foundation and advanced—that use an institution’s internal estimates of key risk parameters in combination with supervisory capital formulas to determine risk-based capital requirements. Under the foundation approach, banking organizations estimated some risk parameters, and supervisors set others. Under the advanced approach, banking organizations determined all of the key risk parameters.

Basel II also provided three methodologies for estimating operational risk: a basic indicator approach, a standardized approach, and an advanced measurement approach. The basic indicator approach and the standardized approach both linked operational risk capital requirements to fixed percentages of a banking organization’s gross income. The advanced measurement approach relied on a banking organization’s internal operational risk measurement and management processes. Banking organizations with significant trading activities also factored in a measure for exposure to market risk.

The U.S. implementation of Basel II took a few years to materialize into a form that each of the three banking regulators agreed upon. The final rule, issued in 2007, implemented only the advanced internal rating approach to calculating credit risk and the advanced measurement

¹¹⁶ Federal Reserve, “ANPR for Proposed Revisions to the Current Risk-Based Capital Rules,” September 30, 2005, <https://www.federalreserve.gov/boarddocs/press/bcreg/2005/20051006/BaselIAmemo.pdf>.

¹¹⁷ Federal Reserve, “ANPR for Proposed Revisions to the Current Risk-Based Capital Rules.”

¹¹⁸ Federal Reserve, “Implementation of Advanced Capital Adequacy Framework (Basel II Draft Final Rule),” October 26, 2007, https://www.federalreserve.gov/generalinfo/basel2/FinalRule_BaselII/Board_memo.pdf.

approach to operational risk (together called the “advanced approaches”).¹¹⁹ The rules implementing Basel II identified three groups: banks required to adopt the advanced approaches (“core banks”), banks that voluntarily adopt advanced approaches (opt-in banks), and banks that do not need to use advanced approaches (“general banks”). General banks continued to apply the standardized approach. Core banks were institutions with either consolidated total assets of \$250 billion or more, consolidated foreign exposures of \$10 billion or more, or subsidiaries of institutions that use the advanced approach.¹²⁰ (The rule included a provision that allowed regulators to exclude a bank from the advanced approach for a variety of reasons.)

Financial Crisis to the Present: Dodd-Frank Act and Basel III

In the years leading up to the 2007-2009 financial crisis, banks proved after the fact to be overleveraged and insufficiently liquid, which was reflected in rapid credit growth and volatile pricing of risk.¹²¹ The BCBS issued new principles for liquidity risk management in 2008,¹²² and in 2009 it issued further guidance on how to strengthen the Basel II framework.¹²³ By 2009, the financial system in the United States had avoided collapse through large-scale government intervention, and widespread bank failures exposed the vulnerabilities in the existing capital framework.

In 2010, Congress passed the Dodd-Frank Act (P.L. 111-203), which addressed a number of vulnerabilities revealed by the financial crisis. For the most part, the Dodd-Frank Act deferred to the forthcoming Basel III on reforming capital requirements, but Section 171, known as the Collins Amendment, required the bank regulators to establish minimum leverage and risk-based capital requirements, on a consolidated basis, for all insured depository institutions and depository institution holding companies, as well as nonbank financial companies supervised by the Fed. This is an example of how, although the Basel Accords do not require congressional approval to become U.S. regulation, Congress can nevertheless make statutory changes to capital requirements, regardless of whether they are part of Basel.

By the end of 2010, BCBS issued new prudential standards to address problems exposed by the financial crisis, revising and updating the Basel II standards. These new standards, many of which were new capital requirements and some of which apply only to large banks, came to be known as Basel III and included the following:

- Stricter requirements for the quality and quantity of capital;
- Additional capital buffers that restrict capital distributions if drawn down;
- A minimum amount of loss-absorbing capital relative to all of a bank’s assets and off-balance-sheet exposures regardless of risk weighting;
- Minimum liquidity ratios intended to ensure that banks had enough liquid assets and stable funding to meet cash flow needs; and

¹¹⁹ OCC et al., “Risk-Based Capital Standards: Advanced Capital Adequacy Framework—Basel II; Final Rule,” 72 *Federal Register* 69288, December 7, 2007, <https://www.govinfo.gov/content/pkg/FR-2007-12-07/pdf/07-5729.pdf>.

¹²⁰ Banks required to use advanced approaches would be redefined in 2019. See the section entitled “Advanced Approaches.”

¹²¹ Alexander Chudik and Marcel Fratzscher, “Liquidity, Risk and the Global Transmission of the 2007-08 Financial Crisis and the 2010-11 Sovereign Debt Crisis,” European Central Bank, February 2012, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1416.pdf>.

¹²² BCBS, *Principles for Sound Liquidity Risk Management and Supervision*, September 2008, <https://www.bis.org/publ/bcbs144.pdf>.

¹²³ BCBS, *Enhancements to Basel II Framework*, July 2009, <https://www.bis.org/publ/bcbs157.pdf>.

- Additional requirements for systemically important banks, including higher capital requirements than other banks and strengthened cross-border supervision and resolution.

A series of narrower, more technical BCBS proposals followed. Some of the more complex details of the Basel III framework were later agreed to in 2017 (known as the “Basel III Endgame”),¹²⁴ with an implementation time frame of the final measures taking place from 2023 to 2028.¹²⁵

The United States began implementing the first round of Basel III standards in 2014 after a couple of years of proposed rulemaking.¹²⁶ Regulations issued in 2014 included the implementation of Basel III, changes to the existing capital framework to be consistent with Dodd-Frank, revisions to the calculation of RWA under the Basel II standardized approach, and changes to the advanced approaches risk-based capital rules. Regulators also included changes to specific risk weights and definitions to better reflect risks that had been problematic during the financial crisis, such as high volatility commercial real estate (HVCRE). As a result, details of the U.S. capital rules diverge in places from the Basel III framework, sometimes in ways that make the U.S. rules stricter.¹²⁷ The implementation of each of these provisions was phased in over several years, with most parts phased in by 2016 but some subparts being implemented in 2022. Some of the provisions implemented in the final rule are listed in **Table A-1**.

Table A-1. Key Provisions of U.S. Basel III Implementation

Provision	Covered Institutions
Minimum capital ratios and buffers; regulatory adjustments and deductions	All banking institutions
Standardized approach for calculating RWA	All banking institutions (established floor for advanced approaches institutions)
Advanced approaches for calculating RWA	Advanced approaches institutions
RWAs for market risk	Market risk institutions

Source: Davis Polk, “U.S. Basel III Final Rule: Visual Memorandum,” April 30, 2015, p. 7, https://www.davispolk.com/sites/default/files/updated_april_2015_visual_memo_us_basel_3_final_rule.pdf.

Notes: Market risk institutions have aggregate trading assets and liabilities of more than 10% of total assets or more than \$1 billion or one that is required to calculate RWAs for market risk by a regulator.

Congress modified parts of Basel III in subsequent legislation. In 2018, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA; P.L. 115-174), which reduced the number of banks subject to the large bank capital framework resulting from the Dodd-Frank Act (discussed in the section above entitled “Large Bank Enhanced Capital

¹²⁴ BCBS, *Basel III: Finalising Post-Crisis Reforms*, December 2017, <https://www.bis.org/bcbs/publ/d424.pdf>.

¹²⁵ See the section entitled “Basel III Endgame.” The original final implementation of 2022 was delayed because of COVID-19.

¹²⁶ OCC and Board of Governors of the Federal Reserve System, “Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule,” 78 *Federal Register* 62018, October 11, 2013.

¹²⁷ Davis Polk, “U.S. Basel III Final Rule: Visual Memorandum,” April 30, 2015, https://www.davispolk.com/sites/default/files/updated_april_2015_visual_memo_us_basel_3_final_rule.pdf.

Framework”).¹²⁸ In addition, it created the CBLR, which allowed certain banks to opt in to a different, simplified capital framework (discussed in the section above entitled “Community Bank Leverage Ratio”). The current capital standards for U.S. banks are discussed in detail above. The EGRRCPA also modified specific details of certain capital rules, including those surrounding the risk weighting of HVCRE and the SLR.

Author Information

Andrew P. Scott
Specialist in Financial Economics

Marc Labonte
Specialist in Macroeconomic Policy

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¹²⁸ For more information, see CRS Report R45073, *Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174) and Selected Policy Issues*, coordinated by David W. Perkins.