Background: the Basel Committee & Capital

Background

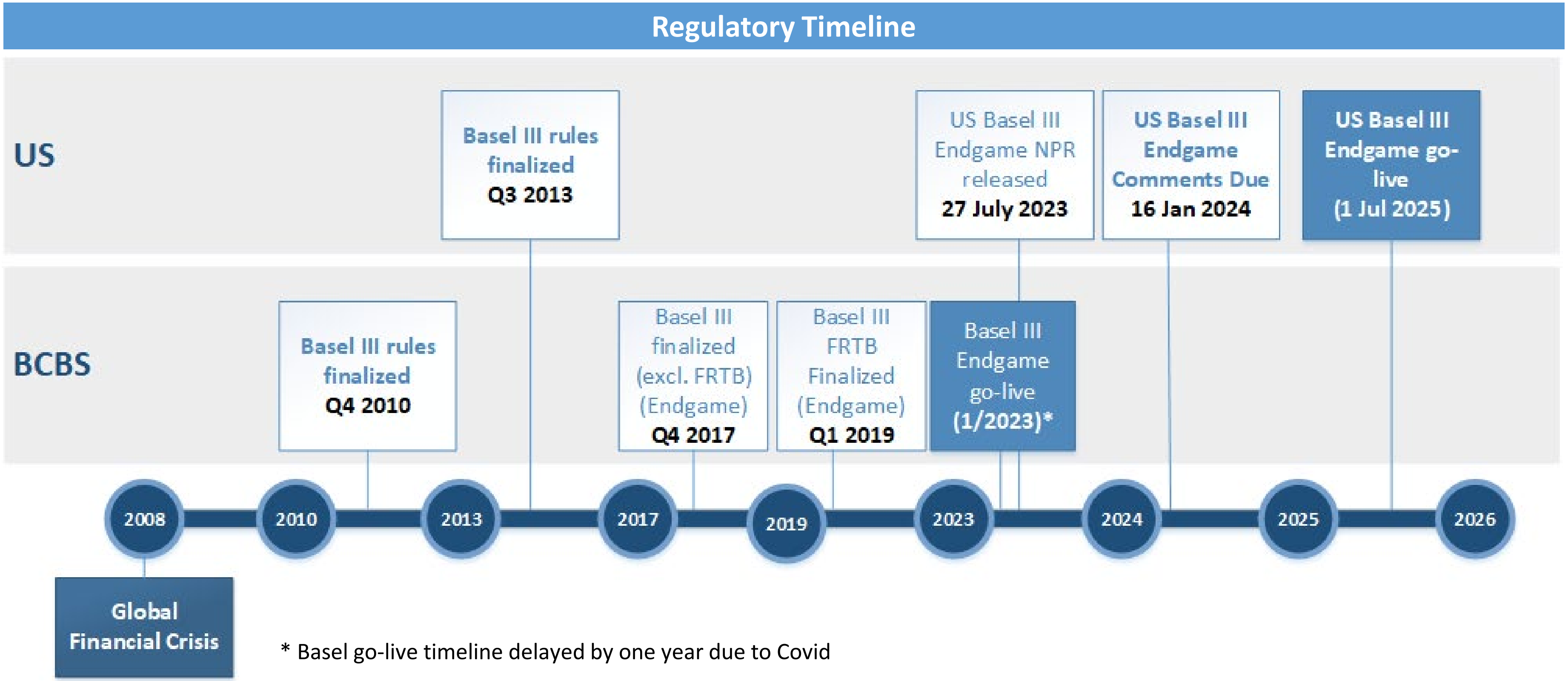
- The Basel Committee, first established in 1974, is made up of international banking regulators. It operates as a global standard setting body where regulators agree on what minimum standards to apply.
    - The U.S. Prudential regulators (i.e. Federal Reserve, OCC, and FDIC) are all represented on the Committee and jointly set minimum regulatory capital requirements for banks operating in the U.S.
    - The BCBS introduced **significant revisions to the Basel Framework** following the 2008 Financial Crisis.

- The U.S. Prudential regulators published an initial set of Basel III rules in 2013.

- In July of this year the regulators **proposed new capital rules** based on the framework agreed upon by the Basel Committee. These rules are referred to as: **the Basel III Endgame**.

- The intended go-live date is **July 2025 with a three-year phase-in period** for some aspects of the proposal.
    - The proposed rule is intended to **align U.S. capital rules with the Basel Framework**.

Basel III Regulatory Timelines



* Basel go-live timeline delayed by one year due to Covid

Capital in the system has increased substantially. In the U.S., **GSIB capital has increased by over $800 billion, an increase of over 200%** compared to 2008.

- The EU is expected to final the Basel III endgame rules by end of this year and enter into force by Q1 2024 with a go-live date of 1 Jan 2025.
- The UK is expected to publish its full set of final rules Q3 2024, but the trading book portions will be finalized by year end with a go-live date of 1 July 2025.

Why is Basel III Endgame Impactful?

Impact Overview

Simplified Illustration of Capital Stacks

Current US - Minimum Risk-Based Capital Requirement

Standardized Approach (US-SA)	Advanced Approach (US-AA)
Credit Risk	Credit Risk
Market Risk	Market Risk
	CVA
	Ops Risk

Endgame Proposal - Minimum Risk-Based Capital Requirement

Standardized Approach (US-SA)	Expanded Risk Based Approach (ERBA)
Credit Risk	Credit Risk
Market Risk	Market Risk
	CVA
	Ops Risk

Standardized is generally the binding constraint under the current rule for US GSIBs due to higher risk weighted assets (RWA) and the applicability of the stressed capital buffer.

US Standardized does not include CVA and operational risk.

However, under the proposed rule, operational risk and CVA become part of the binding constraint in the form of the expanded risk-based approach (ERBA). Therefore, going forward, both RWA components are included in the capital requirements for calculating the total required capital.

Impact to Trading Activities

Impact Overview

Based on the year-end of 2021 data and QIS reports of large banking organizations, the US Agencies estimate that the increase in RWA associated with trading activity (market risk RWA, CVA risk RWA, and attributable operational risk RWA) would be around **$880 billion** for large holding companies relative to the Current US Standardized Approach. This translates to an overall increase of **157%** for trading activities.

Trading Activity – RWA Impact associated with moving from US-SA to ERBA as a Total Capital Binding Requirement

	Basel III Proposed ($bn)	Current US Standardized ($bn)	Difference ($bn)	Increase (%)
Market Risk*	980	560	420	75%
CVA Risk*	288	0	288	
Attributable operational risk	172	0	172	
Total	1440	560	880	157%

* Table 1. Risk-weighted Assets (RWA) by Risk Category ($ Billion, year-end 2021), Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity