



Capital Proposals

Basel III Amendments, Revised
Standardized Approach, GSIB Surcharge

March 2026

KPMG Regulatory Insights

Net Capital Relief: The proposed revisions to the risk-based capital framework align more closely with the Basel standards and work together with other related rulemaking activity including stress testing and leverage capital resulting in a potential for net capital relief. Recalibration could create opportunities for banks to reassess binding constraints, release excess management buffers, and redeploy capital toward lending growth, balance sheet optimization, and M&A.

Simplification: Category I and Category II firms are no longer required to calculate two parallel sets (e.g., standardized and advanced approaches) of risk-based capital ratios, adopting a single approach, the “expanded risk-based approach.” Category III and Category IV firms retain a revised “standardized approach.”

Modernization: To better align capital with observed risk, operational risk is explicitly included in risk-weighted assets, using a business indicator-based component, including a noninterest component that downscales for certain treasury and investment services. Proposals to modify capital requirements for servicing and originating mortgages are intended to align capital requirements for traditional lending activities with risk.

Minimization: Although the stress capital buffer (SCB) remains applicable, operational risk losses and global market shocks would be adjusted in stress testing to minimize double-counting between stress tests and proposed Basel III rules. Stress tests remain a forward-looking backstop, but with a lower SCB.

Implementation: While there is a 90-day public comment period, the proposals are generally silent to effective dates and implementation; given the expected overall “moderate” capital impact, there is potential for implementation to exclude a phase-in when effective dates are announced.

The Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC) (collectively, “agencies”) have issued two joint proposals to revise and “modernize” the capital framework for banking organizations of all sizes. The agencies state the

intent is to “better align regulatory capital with risk while maintaining the safety and soundness of the banking system.” The proposals include the:

- Expanded Risk-Based Approach
- Standardized Approach



Expanded Risk-Based Approach

The proposal would revise the risk-based capital requirements applicable to Category I and Category II banking organizations, including updates to the Basel III risk-based capital framework elements, which have been generally referred to as the “Basel III Endgame”.

Under the proposal, the standardized approach would no longer apply to these banking organizations, and the advanced approaches would be removed from the regulatory capital framework; covered banking organizations would be subject to a single-set of risk-based capital requirements under the “expanded risk-based approach” (hereinafter, “ERBA”). The proposal would also revise the market risk framework, which would be applicable to Category I and Category II depository institution holding companies and other banking organizations with significant trading activity.



Standardized Approach

The proposal modifies certain aspects of the current capital rule that would apply to banking organizations that would not use the ERBA. The proposal would revise the risk-based capital treatment of certain exposure categories under the standardized approach, focusing on improving the calibration and risk sensitivity of risk weights that are particularly material to covered banking organizations’ lending activities. Notably, the proposal would remove the opt-out for Accumulated Other Comprehensive Income (AOCI) for Category III and Category IV banking organizations.



In a separate but related release, the FRB [proposes](#) amendments to its rule that identifies and establishes risk-based capital surcharges for global systemically important bank holding companies (GSIBs). The GSIB Surcharge proposal would also amend the Systemic Risk Report (FR Y-15) and is intended to

improve measurement of systemic risk in the GSIB surcharge framework.

The agencies are soliciting public comment on each of the proposals, with a common submission deadline of June 18, 2026. The proposals do not include proposed compliance dates.

Four Pillars of the Regulatory Capital Framework*

The ERBA, Standardized Approach, and GSIB Surcharge proposals are intended to work together and also to take into account the aggregate impact of revisions introduced across multiple rulemakings:

<h2 style="margin: 0;">Stress Testing</h2>  <p style="margin: 10px 0 0 0;">See KPMG Regulatory Alerts here & here</p>	<h2 style="margin: 0;">Supplementary Leverage Ratio</h2>  <p style="margin: 10px 0 0 0;">See KPMG Regulatory Alert</p>	<h2 style="margin: 0;">Risk-based Capital Requirements</h2>  <p style="margin: 10px 0 0 0;">ERBA & Standardized Approach, see below</p>	<h2 style="margin: 0;">GSIB Surcharge</h2>  <p style="margin: 10px 0 0 0;">See below</p>
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Cumulative Change in Aggregate CET1** Capital Requirements

Area	Category I & II firms	Category III & IV firms	Smaller banking organizations
ERBA Proposal	+1.4%		
GSIB Surcharge Proposal	-3.8%		
Standardized Approach Proposal		-6.1%	-7.8%
AOCI Requirement Proposal		+3.1%	
Stress Testing Proposal	-4.3% (global market shock & operational risk) +1.9% (other changes)	-2.2%	
Total	-4.8%	-5.2%	-7.8%

Source: Derived from FRB Board Memo dated March 19, 2026

**See Appendix for more information*

***Common Equity Tier 1 (CET1)*

Expanded Risk-Based Approach Proposal

Scope of Application. The ERBA proposal would apply to banking organizations as follows:

- Require Category I and Category II banking organizations to use the ERBA, including the market risk capital requirements regardless of the amount of their trading activities.
- Require certain banking organizations to follow the market risk capital requirements based on the amount of their trading activities.
- Provide all other banking organizations, subject to the current capital rule, the option to adopt the expanded risk-based approach in its entirety.

Key Features of the Proposal

Area	Description
Capital	Modifies the definition of capital
Credit Risk	<ul style="list-style-type: none"> • Eliminates the dual standardized and advanced approaches to calculate risk-weighted assets (RWAs) • Introduces a “single set of risk-based requirements” to calculate the minimum risk-based capital ratios using a single, standardized RWA framework • Removes internal models to calculate risk-based capital requirements
Operational Risk	Adds an operational risk capital requirement by: <ul style="list-style-type: none"> • Removing advanced approaches RWAs for Category I and Category II banking organizations • Introducing standardized RWA approach to measure operational risk
Market Risk	Revises the current market risk capital framework consistent with Basel “Fundamental Review of the Trading Book” (FRTB) guidelines to calculate RWAs by introducing: <ul style="list-style-type: none"> • A “risk-sensitive standardized methodology” (standardized measure) • A “models-based methodology” (models-based measure)
Credit Valuation Adjustment Risk	Introduces an activity-based threshold for banking organizations with “significant over-the-counter derivatives”
Indexing of Thresholds	Introduces an indexing methodology to adjust certain thresholds (11 in total) based on the consumer price index and would “generally align” with the FDIC methodology

Definition of Capital. All banking organizations required to apply, or choosing to adopt, the ERBA would be subject to the same definition of capital. As proposed, the definition of capital in the current capital rule would be “broadly” maintained with modification related to Mortgage Servicing Assets (MSAs):

- MSAs would no longer be required to be deducted from common equity tier 1 capital (CET1).
- MSAs would not be considered when calculating the aggregate deduction amount for temporary difference DTAs and significant investments in the capital of unconsolidated financial institutions in the form of common stock.
- All MSAs instead receive a flat 250 percent risk weight.

Risk-Weighted Assets under the Expanded Risk-Based Approach

Credit Risk. Under the proposal, a banking organization would follow “similar mechanics” to those in the current standardized approach to determine its RWAs for credit risk. However, the proposal makes the following changes to the current capital rule:

- Introduces more granular risk factors to allow for a broader range of risk weights including for exposures to depository institutions, foreign banks, and credit unions; subordinated exposures, including those to GSEs; and real estate, retail, and corporate exposures.
- Eliminates the internal models methodology (IMM).
- Replaces the Value-at-Risk (VaR) methodology with an Expected Shortfall (ES) based methodology to capture tail risk.
- Continues to allow the collateral haircut approach but modifies certain of the standard market price volatility haircuts and no longer allows a banking organization to use its own internal estimates for calculating haircuts for counterparty credit risk-related exposures.

Operational Risk. The ERBA introduces a specific operational risk capital requirement. Under the current standardized approach, operational risk is not included in RWAs for all banking organizations; Category I and Category II banking organizations are required to calculate RWAs using Advanced Measurement Approaches (AMA) based on their internal models. The ERBA proposal would remove the AMA and introduce a standardized approach to calculate the RWAs for operational risk using a standardized “business indicator component.”

Additionally, the proposal would require banking organizations subject to ERBA to have an operational risk management function that is independent of business line management to design, implement, and oversee the loss event data and its collection process.

Other. Additionally, the ERBA proposal would modify requirements for:

- Certain **securitizations** (e.g., synthetic securitizations, resecuritizations) in the securitization framework.
- The treatment of **commitments in the equity exposures framework** to align with the ERBA.
- Introducing an **indexing methodology** to adjust 11 different dollar-based thresholds based on the consumer price index for urban wage earners and clerical workers (CPI-W) published by the U.S. Bureau of Labor Statistics. The thresholds would be adjusted at the end of every consecutive two-year period with discretionary adjustments allowed during an off year.



Risk-Weighted Assets Under the Market Risk Framework

Market Risk. The market risk framework in the proposal would apply to Category I and Category II depository institution holding companies and other banking organizations with “significant trading activity,” which would be defined as either:

- \$5 billion or more of trading assets and trading liabilities (an increase from \$1 billion in the current capital rule).
- Trading assets and trading liabilities that represent 10 percent or more of total assets (as currently defined).

The ERBA proposal would revise the existing market risk capital framework and introduces principles outlined in the Basel Committee’s FRTB framework:

- A “risk-sensitive” standardized methodology for calculating RWAs for market risk (the standardized measure).

- A new models-based methodology (the models-based measure).
- Permissions for the use of internal models to calculate market risk capital requirements but only for trading desks where modeling can be demonstrated to be appropriate.

Note: The standardized measure would be the default methodology, and a banking organization would be required to obtain prior approval from its primary Federal supervisor to use the models-based measure.

Market risk capital requirements under the current capital rule apply to a banking organization’s covered positions. The proposal retains the existing definition of covered positions with several modifications.

Credit Valuation Adjustment (CVA) Risk. All banking organizations subject to the market risk framework would apply capital requirements to CVA risk. In addition, banking organizations not otherwise subject to the market risk framework would be required to apply capital requirements to CVA risk if they have over-the-counter derivative notional amounts of \$1 trillion or more. The proposal would provide two measures for calculating CVA risk capital requirements:

1. Basic Measure, which recognizes only the credit spread component of CVA risk and is similar to the current capital rule’s “simple CVA approach” (BA-CVA)
2. Standardized Measure, a new standardized CVA approach which accounts for both credit spread and exposure (SA-CVA)

Note: Only banking organizations that use the standardized approach for counterparty credit risk (SA-CCR) (within the Credit Risk RWAs) would be eligible to use the Standardized Measure, further, the banking organization would be required to obtain prior approval from its primary Federal supervisor.



Standardized Approach Proposal

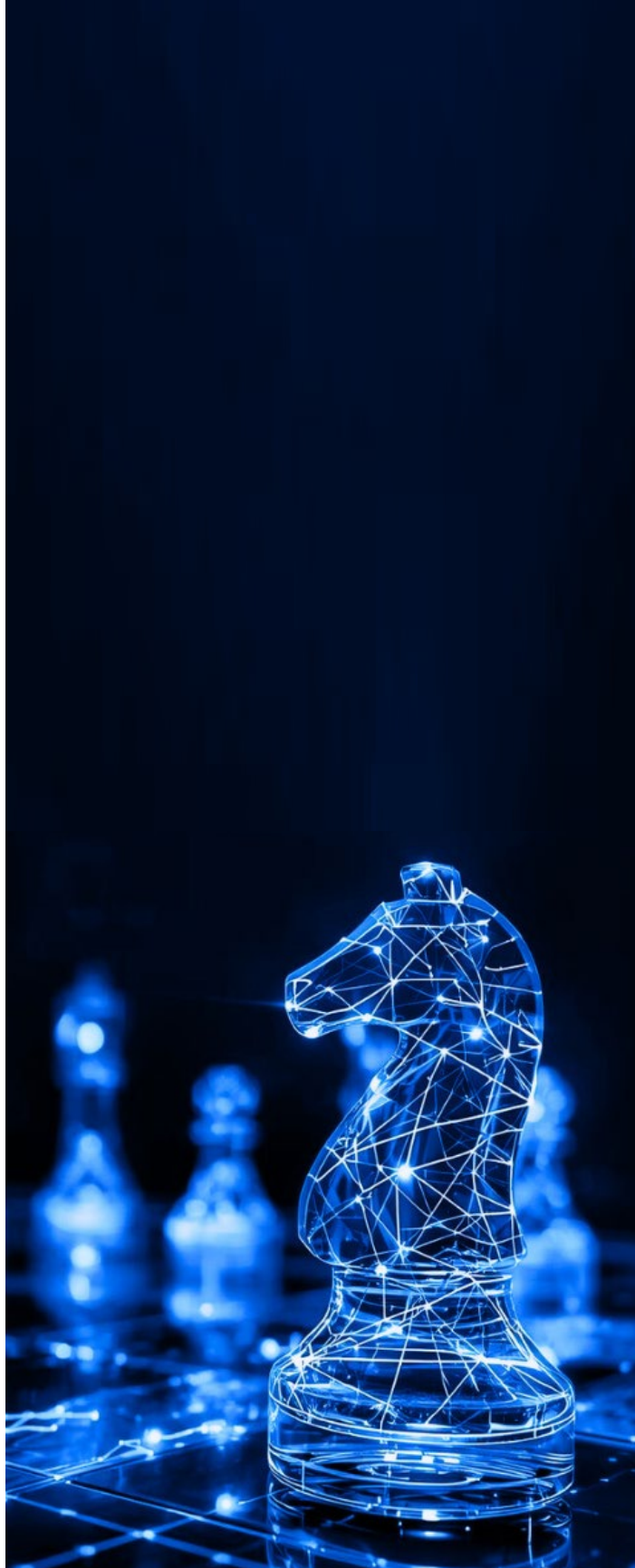
Scope of Application. As proposed, the revised standardized approach would apply to “most banks,” including Category III and Category IV banking organizations and all other banking organizations that are not required to and have not opted-into the ERBA. Banking organizations that have elected to use the community bank leverage ratio framework (see [KPMG Regulatory Alert](#)) would also not be required to follow the standardized approach.

The agencies summarize that the proposal would revise certain elements of the calculation of the denominator of the risk-based capital ratios (RWAs) under the standardized approach and make certain adjustments to the definition of regulatory capital. The proposed changes aim to improve risk sensitivity while generally retaining the simplicity of the current framework.

At a high level, the proposed changes address the definition of capital, the calculation of certain RWAs, and future indexing of certain dollar-based thresholds.

Definition of Capital. The proposal would “broadly” maintain the definition of capital in the current capital rule with modifications to:

- Eliminate the requirement to deduct MSAs from CET1 capital for all banking organizations (MSAs would instead be subject to a 250 percent risk weight).
- Require Category III and Category IV banking organizations to recognize certain elements of Accumulated Other Comprehensive Income (AOCI) in CET1 capital, subject to a five-year phase-in for reflecting AOCI in regulatory capital (beginning with the effective date of any final rule) for banking organizations that do not currently recognize AOCI in their regulatory capital.



Risk-Weighted Assets under the Standardized Approach

Under the proposal, a banking organization would continue to follow the mechanics of the current capital rule for determining its standardized total RWAs. As such, a banking organization would calculate the RWA amounts for its on- and off-balance sheet exposures and, if applicable, RWAs for market risk covered positions. The agencies state the proposed modifications focus on improving the calibration and risk sensitivity of risk weights as well as alignment with the ERBA, as appropriate, including in the following areas:

General Risk Weight Treatment. Targeted revisions to the general risk weight treatment of certain exposure categories that are particularly material to bank lending activities, including:

- **Residential mortgages.** Introducing a loan-to-value (LTV)-based approach that would assign risk weights to certain residential mortgage exposures, without adjustment for any private mortgage insurance, basing the risk weight on whether repayment is dependent on the cash flows generated by the real estate.
- **Corporate exposures and other assets.** Reducing risk weight applicable to corporate exposures from 100 percent to 95 percent and reducing the risk weight applicable to other assets from 100 percent to 90 percent.

Off-Balance Sheet Exposures. Proposed revisions to align with the ERBA addressing the:

- **Definition of “commitment”.** Clarifying that any contractual arrangement under which a banking organization and an obligor agree to the terms applicable to one or more future extensions of credit, purchases of assets, or issuances of credit substitutes by the banking organization is a commitment, whether or not the arrangement is unconditionally cancelable.
- **Conversion factors for “commitment”.** Simplifying the conversion factors by applying a credit conversion factor of 40 percent regardless of the maturity of the facility (i.e., no longer differentiation by the original maturity of the commitment) for:

- A credit or equity commitment that is not unconditionally cancelable.
- A conditional commitment to acquire an equity exposure.

- **Commitments with no pre-set limit.** Including an approach to calculate a proxy for the committed but undrawn amount of the commitment.

Derivatives. An expectation that a banking organization that elects to use SA-CCR would apply the same revised SA-CCR framework proposed in the ERBA regardless of whether the banking organization is subject to the standardized approach or the ERBA.

Credit Risk Mitigation. Largely incorporating the treatments for collateralized transactions, guarantees, and credit derivatives from the current capital rule while proposing enhancements to increase risk sensitivity, including:

- For **collateralized transactions** where financial collateral secures exposures that are not derivative contracts or netting sets of derivative contracts, i) replacing the collateral agreement requirement with a requirement for the right to liquidate or take legal possession of the collateral upon an event of default, and ii) permitting recognition of certain credit risk mitigation benefits of financial collateral with a maturity or currency mismatch.
- For **eligible guarantees and eligible credit derivatives**, modifying the treatment for eligible credit derivatives that do not include restructuring as a credit event and no longer permitting the recognition of credit protection from nth-to-default credit derivatives.
- Updating the **collateral haircut approach** to partially recognize the netting and diversification benefits that may be present in repo-style transactions, eligible margin loans, collateralized derivative contracts and single product netting sets of such transactions.

Securitization. Incorporating the securitization framework in the current standardized approach with multiple modifications that include a variety of new definitions, revised and/or new treatments of certain derivatives and securitization exposures, provisions to expand the scope of securitization exposures, a new framework for non-performing

loan securitizations, and elimination of the gross-up approach.

Indexing of Thresholds. Adopting an indexing methodology to adjust certain dollar-based thresholds based on the CPI-W at the end of every consecutive two-year period following the effective date of any final rule.

GSIBs Risk-Based Capital Surcharges Proposal

For the risk-based capital surcharge applicable to Category I bank holding companies as U.S. GSIBs, the FRB proposal would:

- Adjust the fixed coefficients in the Method 2 surcharge framework to “account for changes in the financial system and the economy,” and, going forward, apply an annual adjustment to the coefficients based on inflation and economic growth to better reflect systemic risk.
- Measure short-term wholesale funding as an absolute amount rather than a ratio of risk-weighted assets and establish a new coefficient for this indicator that approximates 20 percent of the weighted basis points of total Method 2 GSIBs.
- Change the reporting for certain “systemic indicators” currently measured as of a single

date, to reporting based on average daily or monthly values to reduce the effects of temporary changes to indicator values around measurement dates.

- Introduce a narrower Method 2-point score band ranges to reduce “cliff effects.”
- Improve measurement of certain “systemic indicators” and amend the Systemic Risk Report (FR Y-15) for clarity and consistency.

The proposal’s amendments to the current capital rule, FR Y-15 reporting form, and FR Y-15 instructions would take effect two calendar quarters after the date of adoption of a final rule.

Note: The Method 2 coefficients would include size, interconnectedness, complexity, cross-jurisdictional activity, and reliance on short-term wholesale funding.

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Capital-Related Requirements for Domestic & Foreign Banking Organizations

	Category I U.S. GSIBs	Category II ≥ \$700b Total Assets or ≥ \$75b in Cross- Jurisdictional Activity	Category III ≥ \$250b Total Assets or ≥ \$75b in nonbank assets, wSTWF, or off-balance sheet exposure	Category IV Other firms with \$100b to \$250b Total Assets	Other Firms \$50b to \$100b Total Assets
Risk-Based Capital	TLAC/LTD				
	Stress Testing				
	Current	Stress Testing	Stress Testing	Stress Testing	
	<ul style="list-style-type: none"> GSIB surcharge Advanced Approaches Countercyclical Buffer No opt-out of AOCI capital impact 	Current <ul style="list-style-type: none"> Advanced Approaches Countercyclical Buffer No opt-out of AOCI capital impact 	Current <ul style="list-style-type: none"> Standardized Approach Countercyclical Buffer Allow opt-out of AOCI capital impact 	Current <ul style="list-style-type: none"> Standardized Approach Allow opt-out of AOCI capital impact 	Current <ul style="list-style-type: none"> Allow opt-out of AOCI capital impact
	Proposed	Proposed	Proposed	Proposed	Proposed
	<ul style="list-style-type: none"> GSIB surcharge Expanded Risk-Based Approach 	<ul style="list-style-type: none"> Expanded Risk-Based Approach 	<ul style="list-style-type: none"> Revised Standardized Approach No opt-out of AOCI capital impact 	<ul style="list-style-type: none"> Revised Standardized Approach No opt-out of AOCI capital impact 	<ul style="list-style-type: none"> No changes
	Enhanced supplementary leverage ratio	Supplementary leverage Ratio	Supplementary leverage Ratio	Leverage capital	Leverage capital

Source: Derived from FRB 2019 Tailoring Rule

Related Regulatory Alerts



Title	Description	Link
Upcoming Regulatory Changes in/to Financial Risk	<p>May 2025. Changes in the banking sector are underway as new leadership at the Department of the Treasury and the federal banking agencies take steps to outline new priorities and propose/redirect expectations related to Financial Risk Supervision, Stress Testing, and Resolution Planning</p>	Upcoming Regulatory Changes in/to Financial Risk
Capital: FRB Proposed Rules on Stress Testing Transparency	<p>October 2025. The FRB proposes rules to “enhance the transparency and public accountability” of its stress testing framework and requests comments on its supervisory stress test models and changes to the models implemented in the 2026 stress test.</p>	Capital: FRB Proposed Rules on Stress Testing Transparency
Enhanced Supplementary Leverage Ratio (eSLR): Final Amendments	<p>December 2025. The FRB, OCC, and FDIC jointly issue final amendments to the enhanced supplementary leverage ratio (eSLR) standard and associated long-term debt (LTD) and total loss-absorbing capacity (TLAC) requirements.</p>	Enhanced Supplementary Leverage Ratio (eSLR): Final Amendments
Community Banking: Regulatory Tailoring Actions and Proposals	<p>December 2025. The FRB, OCC, and FDIC have taken actions to recalibrate supervision and regulation of community banking for the stated purpose of “reducing regulatory burden” and reflecting the “unique business models, risk profiles, and operational realities” of community banks.</p>	Community Banking: Regulatory Tailoring Actions and Proposals



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