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US Basel III Endgame: Proposed Overhaul of Regulatory Capital Requirements

EMF-ECBC Academy Training & Market Update

Anna Pinedo
Partner, New York
apinedo@mayerbrown.com
+1 212 506 2275

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Regulatory Capital Requirements

- Since the 1980s, US banking organizations have been required to satisfy minimum regulatory capital requirements
  - US regulations are based on international Basel Committee standards (but subject to US APA rulemaking)
  - Current requirements were adopted in 2013 and are known as "Basel III"
- US regulatory capital requirements generally apply to all insured depository institutions, bank holding companies (BHCs) and most savings and loan holding companies (SLHCs) and US intermediate holding companies (IHCs) of foreign banking organizations (FBOs)
- US banking organizations must satisfy certain minimum (i) capital to risk-weighted asset ratios and (ii) capital to total assets ratios (the "leverage ratios")
  - May be required to maintain one or more additional buffers of capital, known as the capital conservation buffer, countercyclical capital buffer, and global systemically important bank ("G-SIB") surcharge
  - Are required to comply with other capital-related requirements, including capital adequacy assessments, capital stress testing and capital planning
- Basel Committee intended for national governments to implement most of the Basel Endgame revisions by January 1, 2022, although this deadline was extended until January 1, 2023, due to the COVID-19 pandemic
  - US banking regulators did not propose rules to implement Basel Endgame until July 2023

Scope of Proposal

Scope of Proposal

- US banking organizations with total consolidated assets of $100 billion or more
  - Category I, II, III, and IV banking organizations
  - 8 US G-SIBs, approximately 17 larger and midsized US BHCs (ranging from traditional regional banking organizations to credit card and other niche organizations), 8 US IHCs of FBOs and 3-4 other US banking organizations
- US banking organizations with significant trading activity (only for market risk rule)
  - Banking organizations with aggregate trading assets and liabilities exceeding (i) 10% of total assets or (ii) $5 billion
  - Increase in absolute threshold from $1 billion to $5 billion
  - Approx. 5 US BHCs, 2-4 US IHCs, and 4-5 other US banking organizations
- Does not apply to FBOs or US branches or agencies of FBOs
- Does not apply to banking organizations subject to community bank leverage ratio

Affected Banking Organizations

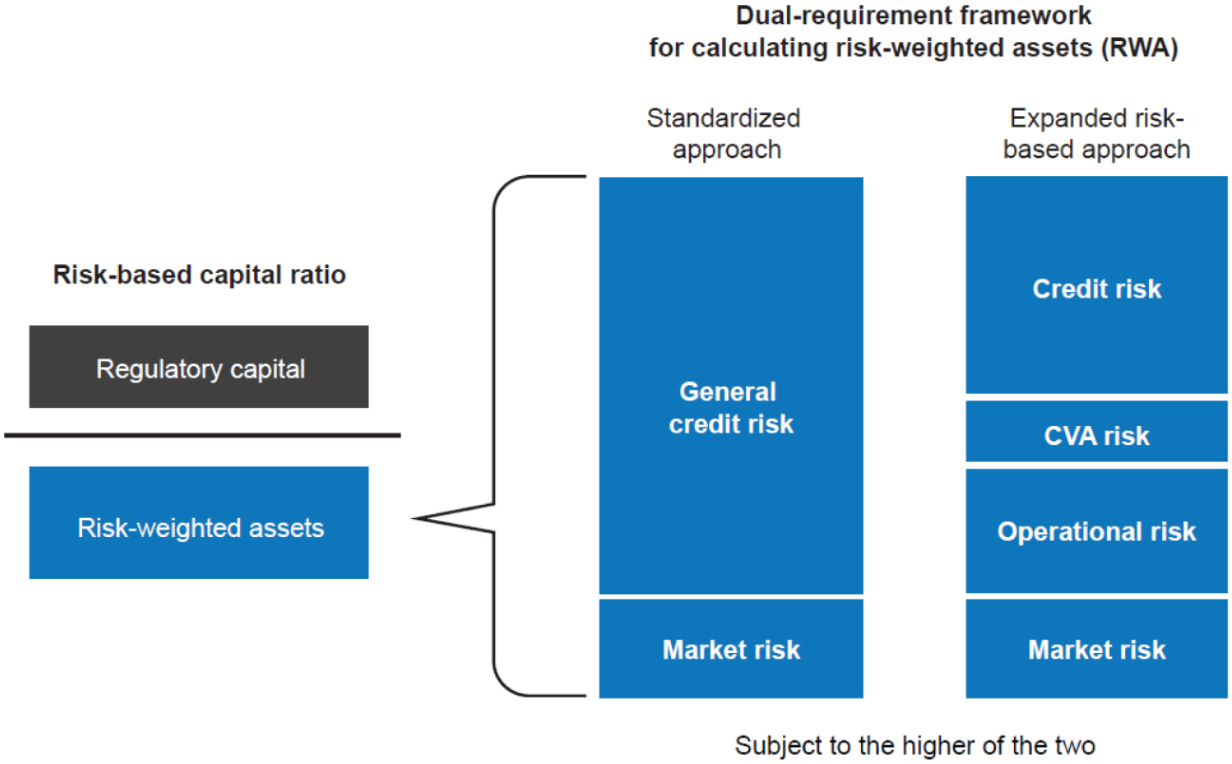
- Ally
- American Express
- Ameriprise
- Bank of America
- Bank of New York Mellon
- Barclays US
- BMO Financial
- BNP Paribas USA
- BOK Financial
- Capital One
- Cedar Rapids Bank and Trust
- Charles Schwab
- CIBC Bancorp USA
- Citigroup
- Citizens
- Comerica
- DB/DWS USA
- Discover
- Fifth Third
- First Citizens
- First Horizon
- Goldman Sachs
- Hilltop Holdings
- HSBC North America
- Huntington
- JP Morgan Chase
- KeyCorp
- M&T Bank
- Mizuho Americas
- Morgan Stanley
- MUFG Americas
- New York Community Bancorp
- Northern Trust
- PNC
- Raymond James
- RBC US
- Regions
- Santander Holdings USA
- Silver Queen Financial Services
- SMBC Americas
- SouthState
- State Street
- Stifel Financial
- Synchrony
- TD Group US
- Truist
- US Bancorp
- UBS Americas
- USAA
- Wells Fargo & Company

Regulatory Capital Calculation

Regulatory Capital Calculation

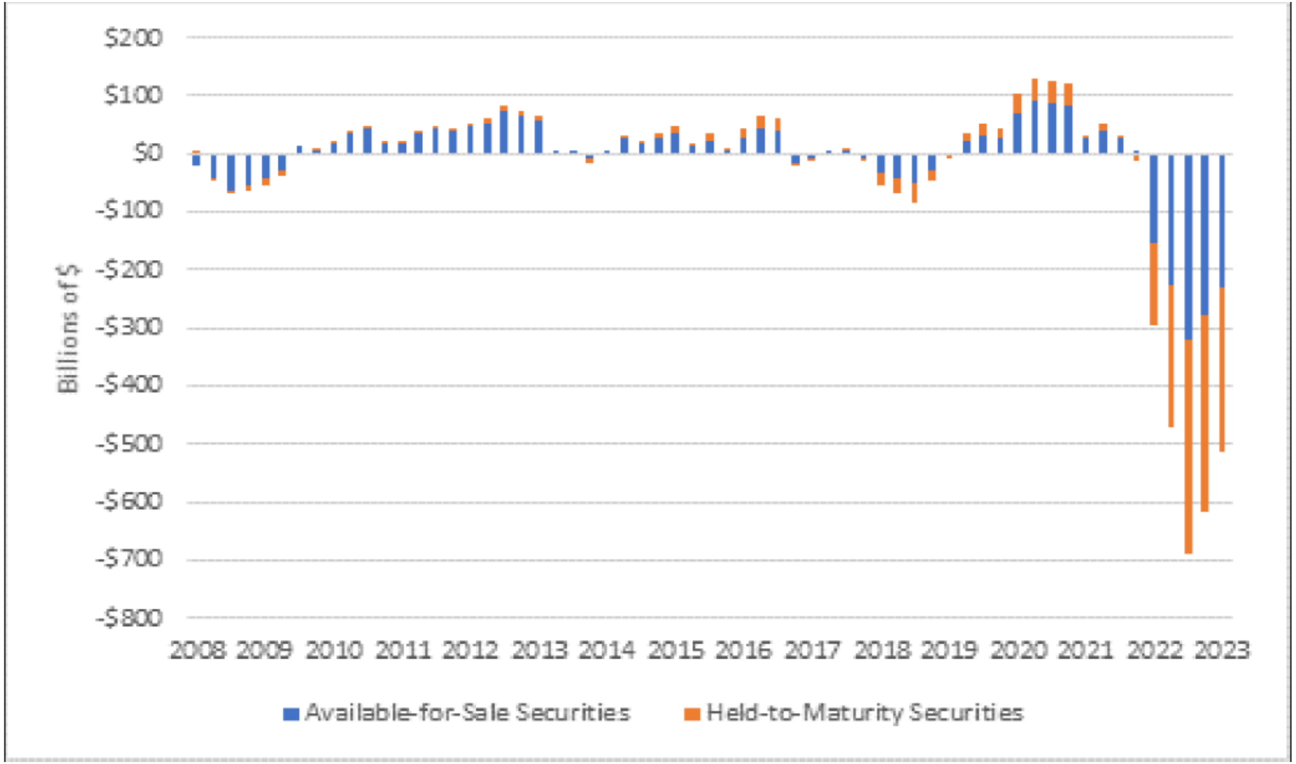
- Currently, banking organizations calculate the amount of regulatory capital that they hold by aggregating the adjusted accounting values of eligible capital instruments
  - Capital includes common stock, retained earnings, and certain preferred shares
  - Banking organizations that are not subject to the Advanced Approaches may opt-out of including most accumulated other comprehensive income (AOCI) items in the calculation of capital
  - Including AOCI in the calculation would likely require a banking organization to raise new capital to maintain the same ratios
- Proposal would require all banking organizations with $100 billion or more in total assets to include most AOCI when calculating capital
  - Banking organizations also would need to apply the capital and total loss absorbing capacity holdings deductions and minority interest treatments that previously applied only to Advanced Approaches organizations
  - Still may exclude accumulated net gain (loss) on cash flow hedges included in AOCI that relate to the hedging of items that are not recognized at fair value
  - On average, AOCI constitutes approx. 18% of CET1 capital for those banking organizations
- Proposal also would require Category III and IV banking organizations to make certain additional disclosures to holders of new Tier 1 and Tier 2 capital instruments

Dual-Stack Capital Requirement



Source: US Regulators

Unrealized Gains and Losses at Insured Banks



Source: CRS

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Credit Risk Capital Requirements

Standardized Approach

New Risk Weighting Regime

- Currently, all banking organizations calculate the amount of assets against which they must hold capital for credit risk under the Standardized Approach
  - Standardized Approach applies specified risk weights to the amount of each on-balance sheet asset and adjusted amount of each off-balance sheet exposure
- Proposal would create an Expanded Standardized Approach that is based on the existing Standardized Approach
  - More granular risk weights for real estate based on loan-to-value ratio and cash flow dependence
  - New risk weight sets for retail, subordinated debt, specialized lending, real estate, and acquisition, development, or construction exposures
  - Elimination of non-significant equity exposure category; more restrictive equity risk weights
  - More punitive treatment of exposures to commercial borrowers with any default (universal cross default treatment)
  - Increase in adjustment factor for certain off-balance sheet exposures
  - Incorporates existing Advanced Approaches for securitization exposures, with certain modifications
  - Existing Standardized Approach would continue to apply (stricter of the two approaches)

Commercial Real Estate

Current US Requirements

Mortgage Type	Risk Weight
Statutory multifamily mortgages	50%
All other	100%
HVCRE	150%
Past due	100%/150%

When calculating the LTV, the loan amount will be reduced as the loan amortizes. The value of the property generally will be maintained at the value measured at origination.

US Basel Endgame Proposal

Mortgage Type	Risk Weight
Statutory multifamily mortgages	50%
Non-HVCRE ADC	100%
Not CF Dependent, LTV ≤ 60%	60%/Borrower RW
Not CF Dependent, LTV > 60%	Borrower RW
CF Dependent, LTV ≤ 60%	70%
CF Dependent, 60% < LTV ≤ 80%	90%
CF Dependent, LTV > 80%	110%
Other commercial	150%
HVCRE	150%
Past due	100%/150%

Residential Real Estate

Current US Requirements

Mortgage Type	Risk Weight
FHA/VA guaranteed	20%
Qualifying first lien residential	50%
Statutory multifamily mortgages	50%
Pre-sold construction	50%/100%
All other	100%
Past due	100%/150%

When calculating the LTV, the loan amount will be reduced as the loan amortizes. The value of the property generally will be maintained at the value measured at origination.

US Basel Endgame Proposal

Mortgage Type	Risk Weight
FHA/VA guaranteed mortgages	20%
Statutory multifamily mortgages	50%
Pre-sold construction	50%/100%
Non-HVCRE ADC	100%
Not CF Dependent, LTV ≤ 50%	40%
Not CF Dependent, 50% < LTV ≤ 60%	45%
Not CF Dependent, 60% < LTV ≤ 80%	50%
Not CF Dependent, 80% < LTV ≤ 90%	60%
Not CF Dependent, 90% < LTV ≤ 100%	70%
Not CF Dependent, LTV > 100%	90%
CF Dependent, LTV ≤ 50%	50%
CF Dependent, 50% < LTV ≤ 60%	55%
CF Dependent, 60% < LTV ≤ 80%	65%
CF Dependent, 80% < LTV ≤ 90%	80%
CF Dependent, 90% < LTV ≤ 100%	95%
CF Dependent, LTV > 100%	125%
Other residential	100%/150%
Past due	100%/150%

Non-Real Estate Corporate and Consumer

Current US Requirements

Loan Type	Risk Weight
Other loans, including consumer and corporate	100%
Past due	150%

US Basel Endgame Proposal

Loan Type	Risk Weight
"Transactor" retail revolving	55%
Public corporate investment grade	65%
Non-"transactor" retail revolving and term	85%
Corporate small business	55%/85%
Other corporate	100%
Other retail	110%
Project finance, pre-operational	130%
Subordinated debt	150%
Past due	150%
*Plus new risk weights for commercial real estate	

Off-Balance Sheet Commitments

Current US Requirements

Loan Type	CCF
Uncommitted	0%
Unconditionally cancelable	0%
Not unconditionally cancelable, ≤ 1 year maturity	20%
Not unconditionally cancelable, > 1 year maturity	50%

US Basel Endgame Proposal

Loan Type	CCF
Uncommitted	0%
Unconditionally cancelable	10%
Not unconditionally cancelable	40%

Also would impose capital requirements on undrawn commitments that have no express contractual maximum amount or pre-set limit based on prior activity.

Equity

Current US Requirements

Exposure Type	Risk Weight
Sovereigns/MDBs	0%
Public sector entities/FHLBs	20%
Community development investments/SBICs	100%
Non-significant exposures	**100%**
Hedge pairs	100%/300%
Unconsolidated FIs	250%
Public equities	300%
Non-public equities	400%
Investment firms with material leverage	600%
Investment funds	Look-through

US Basel Endgame Proposal

Exposure Type	Risk Weight
Sovereigns/MDBs	0%
Public sector entities/FHLBs	20%
Community development investments/SBICs	100%
Unconsolidated FIs/related hedges	250%
Public equities with trading restrictions*	250%
Non-public equities	400%
Investment firms with material leverage	1250%
Investment funds*	Look-through/1250%

*Most public equities would be assigned risk weights under the market risk capital requirements; some investment funds also would be covered under market risk

Defaulted / Past Due Exposures

- Current Requirement: “if an exposure is 90 days or more past due or on nonaccrual … assign a 150 percent risk weight to the portion of the exposure that is not guaranteed or that is unsecured”
- BCBS Standard (limited cross-default): “A defaulted borrower is a borrower [who has] any material credit obligation that is past due for more than 90 days”
- US Proposal (universal cross-default): “The obligor has any credit obligation that is 90 days or more past due or in nonaccrual status with any creditor”
  - Only for non-retail exposures (e.g., CRE)

Securitizations

- Proposal would address securitizations by adopting a form of the securitization framework that is used in the Advanced Approaches, with modifications
  - Additional operational requirements for synthetic securitizations
  - A new securitization standardized approach (SEC-SA), as a replacement to the supervisory formula approach and standardized supervisory formula approach
  - New maximum capital requirements and eligibility criteria for certain senior securitization exposures (i.e., the long-sought “look-through approach”)
  - A new framework for non-performing loan securitizations
- SEC-SA would be a modified version of the current standardized supervisory formula approach
  - Modified definitions of attachment and detachment points, W parameter, and KG
  - Higher p-factor
  - Lower risk-weight floor for securitization exposures that are not resecuritization exposures
  - Higher risk-weight floor for resecuritization exposures

Securitizations *(cont'd)*

- KG: The weighted average capital requirement associated with the underlying exposures (i.e., the securitized assets)
- W: The proportion of underlying exposures that are defaulted, seriously delinquent, etc.
- KA: The weighted average capital requirement associated with the underlying exposures, as adjusted to reflect adverse performance; KA = (1-W)KG+0.5W
- A: The attachment point of the exposure (tranche) – the point in the capital structure of the securitization at which the tranche begins to absorb losses (i.e., the threshold at which credit losses will first be allocated to the exposure)
- D: The detachment point of the securitization exposure (tranche) – the point in the capital structure of the securitization at which the tranche ceases to absorb losses (i.e., the threshold at which credit losses allocated to the exposure would result in a total loss of principal)
- P: A supervisory calibration parameter (1.0 for non-resecuritizations; 1.5 for resecuritizations)

SA-CCR Technical Changes

- Change how collateral and default fund contributions to a QCCP factor into the hypothetical capital requirement for the QCCP
- Remove heightened requirements for the exclusion of collateral from the trade exposure amount
- Revise the directional specification for the supervisory delta adjustment for CDO tranches
- Extend the use of the shift parameter λ to all asset classes
- Remove the option to decompose a non-linear index into separate single-name derivatives

Credit Risk Capital Requirements

Advanced Approaches

Elimination of Advanced Approaches

- Currently, certain larger banking organizations calculate the amount of assets against which they must hold capital for credit risk under the Advanced Approaches
  - Fewer than a dozen banking organizations are subject to the Advanced Approaches
  - Requires banking organizations to use an internal ratings-based approach and other methods to calculate risk-based capital requirements for credit risk
  - Advanced Approaches already are of limited utility due to Collins Amendment and Section 939A limitation
- The Proposal would eliminate the Advanced Approaches for credit risk
  - Eliminate the advanced measurement approach for operational risk, but impose new standardized measure for operational risk
  - Separately permit some modeling for market risk
  - Will be permitted in other jurisdictions

Credit Risk Capital Requirements

Leverage Ratio Framework

Expanded Leverage Ratio Requirement

- Currently, banking organizations calculate the amount of assets against which they must hold capital for credit risk under one or more leverage ratio requirements
  - Non-risk-based calculation that compares a banking organization’s Tier 1 capital to total assets
  - Supplementary leverage ratio goes further and includes off-balance sheet exposures in ratio
  - Enhanced supplementary leverage ratio applies to US G-SIBs and includes a surcharge on capital requirement
- Proposal would extend the supplementary leverage ratio requirement to apply to all banking organizations with $100 billion or more in total assets
  - Require usage of the standardized approach to counterparty credit risk to calculate derivatives exposures
  - Retain other aspects of the current leverage ratio, supplementary leverage ratio, and enhanced supplementary leverage ratio requirements
  - Does not respond to concerns that the leverage ratio requirements impose punitive disincentives to holding central bank reserves and government securities

Fundamental Review of the Trading Book

Market Risk Capital Requirements

Increased Market Risk Capital Requirement

- Currently, certain banking organizations calculate an amount of assets against which they must hold capital for the market risk of their trading activities
  - A banking organization is subject to the market risk capital requirement if its aggregate trading assets and trading liabilities equal to (i) 10% or more of total assets or (ii) $1 billion or more
  - Market risk consists of general and specific market risk, and currently is calculated as the sum of the value-at-risk (“VaR”)–based capital requirement, stressed VaR–based capital requirement, specific risk add-ons, incremental risk capital requirement, comprehensive risk capital requirement, and capital requirement for de minimis exposures
- Proposal would increase the market risk capital requirement
  - Raise $1 billion threshold to $5 billion, but apply requirement to all banking organizations with total assets of $100 billion or more
  - New, more prescriptive framework for segregating banking book from trading book
  - Restrict use of internal models for risks that are “too hard” to model and impose a standardized approach to be used when internal modeling is not feasible
  - Does not address the duplicative interaction between the market risk capital requirements and the global market shock component of the Federal Reserve’s stress capital buffer requirement

Market Risk Changes *(cont'd)*

- Proposal completely overhauls calculation of market risk-weighted assets
  - New trading desk identification and model eligibility and governance requirements
  - New internal models method (expected shortfall) that does not rely on VaR
    - Cannot use internal models to calculate default risk
    - New horizons for projecting liquidity attributes of expected shortfalls
    - Starting date of 2007 for stressing purposes
    - Expanded backtesting requirements and new profit-and-loss attribution testing
    - Additional components may apply (e.g., fallback capital requirement, re-designation add-on, supervisory add-on)
  - New approach for CVA risk

Banking Book/Trading Book Boundary

- New mandatory assignment rules for market risk include:
  - A trading asset or trading liability that is a position that is held for the purpose of regular dealing or making a market in securities or in other instruments and that is free of any restrictive covenants on its tradability or where the banking organization is able to hedge the material risk elements of the position in a two-way market
  - A publicly traded equity position or an equity position in an investment fund that is not expressly excluded from being a market risk covered position
  - A net short risk position of $20 million or more
  - An embedded derivative on instruments that the banking organization issued that relates to credit or equity risk that it bifurcates for accounting purposes
  - The trading desk segment of an eligible internal risk transfer of credit risk, interest rate risk, or CVA risk
  - A position arising from a transaction between a trading desk and an external party conducted as part of an internal risk transfer
  - The CVA segment of an internal risk transfer or CVA hedge with an external party that is not an eligible CVA hedge
- Switching between books would be strictly limited, potentially penalized, and irrevocable
  - A capital benefit as a result of switching will not be allowed in any case or circumstance

Operational Risk Capital Requirements

Expanded Operational Risk Capital Requirement

- Currently, only banking organizations that use the Advanced Approaches for credit risk are required to calculate an amount of assets against which they must hold capital for the operational risk of their activities
  - Operational risk means the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events
  - Capital charge is calculated using internal estimates of a banking organization’s operational risks
- Proposal would replace the internal estimate of operational risk with a standardized measure
  - “Are all revenues equally bad, really? … what person in what ivory tower thinks that that is a rational thing to do” Jamie Dimon
  - The measure’s internal loss modifier would be based on a banking organization’s historical losses (i.e., through capturing of operational risk loss data over a 10 year horizon)
  - Retains antiquated international definition of “operational risk”
  - Operational risk capital charge may be included in determining stress capital buffer requirement (potential duplication of risk)

Operational Risk Capital Requirement

- Component for services-related income/expenses would not be capped, exacerbating effect on fee-dependent banking organizations
  - Includes items such as income from loan servicing assets, custody/safekeeping services, issuing letters of credit, investment banking and securities brokerage, insurance activities, and annual and interchange-related fees for credit cards
  - May see significant operational risk capital charges, exceeding 20% of current risk-weighted assets for some organizations
- By generally setting the internal loss multiplier based on a banking organization's unique operational loss experience (and with a floor of 1), the Proposal would introduce the potential for greater variability in operational risk capital charges
  - Stricter than required by Basel Committee

Credit Valuation Adjustment Risk Capital Requirements

Revised Credit Valuation Adjustment Provisions

- Currently, credit risk approaches include provisions for quantifying capital charge for credit valuation adjustment (CVA) risk
  - CVA risk means the possibility of losses arising from changing instrument values in response to changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions and securities financing transactions
- Proposal would extract the CVA-related provisions into a standalone risk-based capital calculation
  - Only would apply capital requirements to derivatives transactions
  - Use standardized approaches for calculating risk-based capital requirements
  - Require banking organizations to implement identification, documentation, and other operational controls

Long-Term Debt Requirement

Long-Term Debt Proposal

- Currently, only the 8 US G-SIBs and IHCs that are controlled by a global systemically important FBO are required to maintain an amount of outstanding eligible long-term (LTD) debt
  - LTD requirement is based on a percentage of risk-weighted assets or total leverage exposure
  - For US G-SIBs, LTD requirement is the greater of 6% of RWAs plus G-SIB surcharge and 4.5% of total leverage
  - Intended for use in bail-in situations to mitigate effect of failure (too big to fail)
  - Applies only to holding company
- Related requirements
  - Clean holding company restrictions
  - Total loss absorbing capacity requirements and buffer
  - Limits on distributions and discretionary bonus payments
- Capital and G-SIB proposals did not contain an eligible LTD requirement

Long-Term Debt Proposal *(cont'd)*

- LTD proposal was released August 30, 2023
  - Affects most banking organizations with $100 billion or more in total assets
  - Includes a new minimum denomination criteria ($400,000), but grandfathers existing instruments
  - Will apply separately to holding company and insured depository institution, including those of non-US G-SIBs
  - Includes slightly modified clean holding company restrictions
- Regional banks expected to need an additional $70 billion in LTD to satisfy new requirement
  - CMBS and other ABS will not count as eligible LTD
- Next steps:
  - Consider pre-qualifying any new debt as eligible LTD under the proposal
  - Analyze strategies for satisfying LTD requirement for insured depository institution (and if necessary, holding company)
  - Assess impact of clean holding company restrictions
  - Identify holdings of third-party LTD that will be subject to capital deduction

Other Proposed Changes

Other Changes

- Proposal would make technical changes to G-SIB surcharge framework
  - Measure some indicators on an average basis over the full year instead of year-end
  - Reduce “cliff effects” in the G-SIB surcharge by measuring G-SIB surcharges in 10-basis point increments instead of the current 50-basis point increments
  - Requests comment on shortening “lag” for compliance with changes in G-SIB surcharge
- Revising the systemic indicators for cross-jurisdictional claims and cross-jurisdictional liabilities would greatly increase indicator scores for some banking organizations
  - Seven FBOs and two US IHCs would move to Category II from Categories III or IV
- Would not adjust the way in which the G-SIB surcharge applies to holdings of central bank reserves and government securities
- Would not incorporate Basel Committee framework for cryptoasset exposures or Basel Committee guidance on climate-related financial risks

Other Changes *(cont'd)*

- Limit the extent to which a banking organization could use internal models for market risk to reduce its capital requirements by imposing an output floor of 72.5%
- Introduce enhanced disclosure requirements and align regulatory reporting requirements with the changes to capital requirements
- Revise the calculation of single-counterparty credit limits by removing the option of using a banking organization's internal models to calculate derivatives exposure amounts and requiring the use of SA-CCR for this purpose
- Proposal requests comment on whether the capital rules should explicitly require banking organizations to perform due diligence to determine whether the minimum regulatory capital requirements for certain exposures sufficiently account for their potential credit risk

Other Changes *(cont'd)*

- Countercyclical capital buffer is an add-on to the risk-based capital requirements that apply to banking organizations that are subject to the Advanced Approaches or are Category III banking organizations
  - Currently, it is set to 0% in the United States and would be increased when the economy is performing well and growing rapidly
- Proposal would apply the countercyclical capital buffer to Category IV banking organizations, thereby making it applicable to all banking organizations with $100 billion or more in total assets

Transition Period

Transition/Phase In

- Capital proposal generally would take effect on July 1, 2025
- Category III and IV banking organizations would be given a three-year phase-in period to comply with the elimination of the AOCI opt-out, ending on June 30, 2028
- All banking organizations would be given three years to phase-in compliance with the changes to the credit, market, operational, and CVA capital requirements
  - Accelerated with 80% recognition in first year
- Changes to the G-SIB surcharge and calculation methodology would take effect two calendar quarters after a final rule is adopted
  - Would allow mixing of data or pro rata approach for elements of methodology that changed

Concluding Thoughts

Basel Endgame

- Proposal would alter the requirements for banking organization exposures to public equities and the equity of investment funds, including presumably, REITs
- No grandfathering for existing loans
- Banking organizations are likely to adjust their activities to favor those with lower capital charges and either exit those with higher capital charges or pass increased pricing through to consumers and counterparties
  - May create opportunities for smaller banking organizations to lend to new customers or at higher rates
- Some banking organizations will need to engage in capital markets activity (e.g., fundraising, M&A)
  - Smaller banking organizations may become more attractive merger partners for banking organizations that need to "bulk up" to achieve economies of scale
- Larger banking organizations often provide certain products and services to smaller banking organizations (e.g., derivatives, credit card processing), and may pass on increased costs of capital and compliance
- Smaller banking organizations (sub-$100 billion) will need to understand and apply the revisions to the market risk capital requirements

Basel Endgame *(cont'd)*

- The banking sector in the United States has been extremely vocal and organized in its opposition to the Proposal and has engaged in an effective advocacy effort with regulators, Congress, and also tried to communicate the costs to the real economy of the Proposal
- Industry organizations have engaged with advisory firms in these efforts and a number have produced analyses and quantitative studies of the effects of the Proposal on the US GDP, as well as on various particular business lines
- SIFMA, the US securities and financial markets trade organization, has published various PWC studies, for example (see: https://explore.pwc.com/c/basel-iii-endgame-bigger-picture?x=v0trZH)
- The PWC study quantifies macroeconomic impacts

Basel Endgame *(cont'd)*

Stakeholder	Impact
Retail customers	▪ Reduced overall credit limits and / or canceled credit lines, with negative associated impact to FICO scores, and higher fees and rates ▪ Fewer options for mortgage lending for low- and moderate-income borrowers and first-time homebuyers
Corporate borrowers	▪ Higher borrowing costs for small and medium businesses ▪ Higher costs for hedging risks
Market participants	▪ Higher transaction costs for financing trades and potentially fewer counterparties for execution ▪ Higher volatility and more challenged price discovery for certain ▪ products resulting from diminished liquidity
U.S. banks	▪ Operational complexities in the execution of new requirements, including new definitions, data sourcing and monitoring ▪ Accelerated erosion of market share to nonbanks in product categories such as home lending and mortgage origination ▪ Reduced capacity for supporting financial intermediation in capital markets, translating to higher costs and rates ▪ Higher capital costs across lines of business, impacting product viability and strategic planning ▪ Higher competitive pressure from peer banking organizations headquartered in jurisdictions that have implemented the Basel framework differently

Basel Endgame *(cont'd)*

- PWC study provides quantitative estimates as well of the Proposal's impacts by product type:
  - Derivatives: Additional capital requirements for derivatives could require banks to pass on additional costs of $10.4 billion per annum to end-users. In particular, the cost to hedge interest rate risks would likely increase by nearly 10 bps, i.e. about $1 million annually per $1 billion of swaps notional. Such an increase is an order of magnitude over the bid-offer typically seen on liquid swaps and comes on top of a rate environment that has increased over 500 bps in the last two years.
  - Securitized Products: Changes to the securitization framework could result in the risk weights for certain tranches of mortgage-backed securities increasing by 250%.
  - Credit Cards/Credit Lines: The 10% credit conversion factor applied to unused lines of credit and lower risk weight for transactor exposures would incentivize banks to reduce credit lines for all customers and reduce credit exposure to segments with traditionally lower credit scores.
  - Residential Mortgages: Incremental capital costs from higher loan-to-value bands would affect $1.46 trillion in outstanding first lien mortgages, possibly reducing credit availability for expanding homeownership.
  - Corporates: Distinctions in capital treatment between publicly listed and private companies, including regulated entities unable to publicly issue securities (e.g., mutual funds and pension funds), would incentivize banks to treat customers differently despite similar credit risk profiles.
  - SFTs: The SFT minimum haircut floor framework drives the increase in risk-weighted assets (RWA) requirements for SFTs, totaling approximately 20% of the total RWA attributable to SFTs for U.S. banks.
- At this time, particularly given the U.S. elections, the timing of a reproposal or of the advancement of a final rule is unclear

Additional Resources From Mayer Brown

Read our Legal Updates:

- Overhaul of Regulatory Capital Requirements Proposed by US Banking Regulators
- A Road Not Taken: Where the US Capital Proposal Differs From Basel

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