Fact Sheet on Proposed Rules to Strengthen Capital Requirements for Large Banks

Background

The bank regulatory agencies are inviting public comment on a proposal to increase the overall resilience of the banking system.

The proposal would implement the final components of the Basel III agreement, also known as Basel III endgame. It also includes changes in response to the recent banking turmoil in March 2023. Comments on the proposal will be accepted through November 30, 2023.

Proposal

The joint agency proposal aims to improve the strength and resilience of the banking system. It would modify large bank capital requirements to:

- Better reflect underlying risks; and
- Increase the transparency and consistency of the regulatory capital framework.

These goals would be accomplished by revising the capital framework for banks with total assets of $100 billion or more in four main areas:

- Credit risk, which arises from the risk that an obligor fails to perform on an obligation;
- Market risk, which results from changes in the value of trading positions;
- Operational risk, which is the risk of losses resulting from inadequate or failed internal processes, people, and systems, or from external events; and
- Credit valuation adjustment risk, which results from the risk of losses on certain derivative contracts.

Additionally, following the banking turmoil in March 2023, the proposal seeks to further strengthen the banking system by applying a consistent set of capital requirements across large banks. In particular, the proposal would require banks with total assets of $100 billion or more to:

- Include unrealized gains and losses from certain securities in their capital ratios;
- Comply with the supplementary leverage ratio requirement; and
- Comply with the countercyclical capital buffer, if activated.

Estimated Impact

During the comment period, the agencies will collect data to refine their understanding of the impacts of the proposal.

The improvements in risk sensitivity and consistency introduced by the proposal are estimated to result in an aggregate 16 percent increase in common equity tier 1 capital requirements for affected bank holding companies, with the increase principally affecting the largest and most complex banks. The effects would vary for each bank based on its activities and risk profile. Most banks currently would have enough capital today to meet the proposed requirements.

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The proposal includes transition provisions to allow banks sufficient time to adjust to the changes while minimizing any potential adverse impact. Under the proposal, the rule would be fully phased in on July 1, 2028. Community banks would not be impacted by this proposal.

Applicability

The proposal would apply to large banks, or those with more than $100 billion in total consolidated assets. For banks below $100 billion in total assets, the market risk provisions of the proposal would also apply to those with significant trading activity. Capital requirements would not change for community banks.