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The implementation of Basel III: progress, divergence and policy challenges

This briefing provides an overview of the global implementation of the Basel III framework. We provide a global overview using information from the Basel Committee and then look in more detail at the progress in the EU, US and UK.

1. Introduction

Banking is a global and local business at the same time. At the local level, banks with few staff and balance sheet total in the millions compete with groups of global reach and total assets that close in on a trillion euro. At the global level, the largest banks provide cross-border services to their clients and interact with one another in complex ways. They compete with one another, but they are also providing essential services to each other and intermediate in the interest of their respective clients. Hence, there is a twofold motivation for sound and consistent global standards for their supervision: all jurisdictions have an **interest in avoiding contagion** through the various links between banks, and the banks, at global and at local level, **desire a level playing** field among competitors.

At the same time, **in different jurisdictions banks operate in different legal and economic environments and have different legal structures**. Smaller, locally active banks are less alike than their globally active peers and may find globally harmonised standards less suitable and may be less convinced of their necessity. Moreover the way those banks are regulated shapes the availability of credit and services for households and SMEs as much as for large corporations and the public sector. As the need for and the ramifications of bank financing – including, say, payment discipline of borrowers and the effectiveness of collateral arrangements – vary across jurisdictions, **globally consistent standards are inevitably a compromise** that does not fully fit local circumstances anywhere.

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Jurisdictions implementing global standards deal with these challenges in different ways. Concentrated banking sectors with few smaller local banks and much interest in global financial intermediation may wish to align closely to global standards. Jurisdictions with more pronounced reliance on smaller banks for local economies may consider not applying global standards to these smaller banks or to make adjustments to global standards to reflect their particularities. Jurisdictions with strong legal systems and sound borrower behaviour may find global standards at times overly restrictive, while jurisdictions with particularly volatile borrower behaviour and less strong legal ramifications for credit may develop a desire to impose more stringent requirements than envisaged in global standards.

The Basel Committee agreed the Basel III framework as a global standard for banks' capital requirements and their supervision back in 2010, and in some jurisdictions such as the EU, implementation efforts started immediately. Quickly dissatisfied with its original agreement, the Basel Committee however resumed its work and **sought to introduce additional restrictions**, in particular regarding the use of internal calculations of banks within the regulatory framework. **This work finally concluded in 2017**. Since then, **a complicated picture has emerged** in which some jurisdictions have fully implemented the agreement of 2017, others are in the process of implementing it, and yet others have still not adopted rules fully aligned with what was agreed in 2010.

This briefing seeks to provide an overview of the situation. Sections 2 and 3 give a rough global overview, looking at timing and substance of global implementation, respectively. Section 4 gives a detailed overview of the EU implementation. Section 5 and 6 respectively consider the progress in the US and UK as jurisdictions of particular interest from an EU perspective.

2. Basel III implementation timelines – global overview

The Basel Committee Basel Committee on Banking Supervision (Basel Committee) monitors the implementation timelines of its members. It gathers information at regular intervals and presents it on its website in the form of various "dashboards". Note that these dashboards are a mere compilation of the information members have provided; the Basel Committee does not verify the information and in particular does not evaluate the quality and conformity of the implementation.

The latest available information on implementation timelines on the Basel Committee website dates from May 2026 and in **Figure 1**, we reproduce one of said "dashboards". **Figure 2** meanwhile shows the agreed timelines for implementation. Looking at the two figures together, **while the whole of Basel III was supposed to be in place everywhere by January 2023, as of today (September 2025) only 8 out of 20 members have implemented the whole framework**. Among those 12 that still fall short on implementation, **India, South Africa, Turkey, the USA and UK stand out visually since they are reported as not having implemented a single bit of the final Basel III standards**. Noteworthy about the Basel Committee dashboard is that it only shows the implementation of the "final" or "endgame" Basel III. However, **Basel III in fact came in two phases**. A first was agreed already in 2010 and implemented fully or partially in a number of places. However, the Basel Committee was quickly dissatisfied with its first Basel III and started reworking it. To counter the narrative that a fourth version of the Basel standards was underway, the Basel Committee referred to the later second version as the only real Basel III. For the reporting on Basel III implementation this unfortunately means that **it is hard to tell where the different members "that have not implemented Basel III" stand** – in fact, they may have the first version of Basel III fully in place – or may be still on Basel II, or even Basel I or something else.

Figure 1: Basel III implementation timelines as of 16 May 2025

	Credit risk SA	Credit risk IRB	Market risk	CVA	Operational risk	Output floor
AR	31 December 2024				01 March 2025	
AU	01 January 2023	01 January 2023			01 January 2023	01 January 2023
BR	01 July 2023	01 July 2023	01 January 2027		01 January 2025	
CA	30 April 2023	30 April 2023	31 January 2024	31 January 2024	30 April 2023	30 April 2023
CN	01 January 2024	01 January 2024	01 January 2024	01 January 2024	01 January 2024	01 January 2024
HK	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025
IN						
ID	01 January 2023		01 January 2024	01 January 2024	01 January 2023	
JP	31 March 2024	31 March 2024	31 March 2024	31 March 2024	31 March 2024	31 March 2024
KR	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023
MX	01 September 2021				01 January 2023	
RU						
SA	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023
SG	01 July 2024	01 July 2024	01 January 2025	01 January 2025	01 July 2024	01 July 2024
ZA	01 July 2025	01 July 2025	01 July 2025	01 July 2025	01 July 2025	01 July 2025
CH	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025
TR						
GB	01 January 2027	01 January 2027	01 January 2027	01 January 2027	01 January 2027	01 January 2027
US						
EU	01 January 2025	01 January 2025	01 January 2026	01 January 2025	01 January 2025	01 January 2025

Status
- draft regulation not published
- draft regulation published
- final regulation published (not yet implemented by banks)
- final regulation in force (implemented by banks)
- not applicable

Source: Basel Committee on Banking Supervision

Figure 2: Basel III implementation timelines as of 16 May 2025

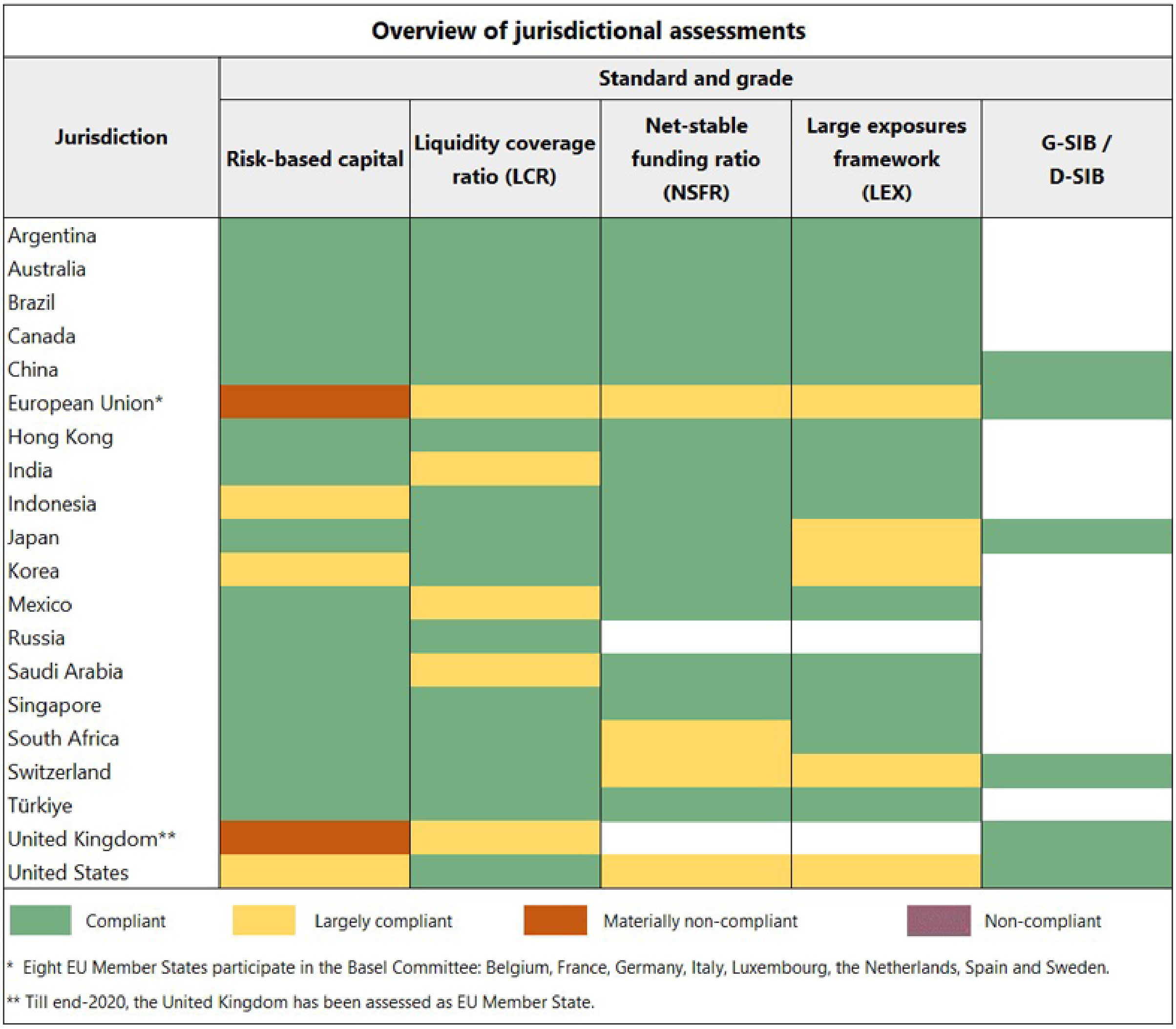
		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Leverage ratio		2014 exposure definition					Revised exposure definition G-SIB buffer					
Capital	Capital conservation buffer	1.25%	1.875%	**2.5%**									
	Minimum common equity plus capital conservation buffer	5.75%	6.375%	**7.0%**									
	Minimum total capital plus conservation buffer	9.25%	9.875%	**10.5%**									
	Phase-in of deductions from CET1[1]	80%	**100%**										
	Capital instruments that no longer qualify as non-core Tier 1 or Tier 2 capital	Phased out from 2013											
Risk coverage	Capital requirements for equity investments in funds and exposures to CCPs	Implementation											
	Standardised approach to counterparty credit risk	Implementation											
	Revised securitisation framework		Implementation										
	Interest rate risk in the banking book		Implementation										
	Large exposures framework			Implementation									
	Revised standardised approach for credit risk							Implementation					
	Revised IRB framework							Implementation					
	Revised CVA framework							Implementation					
	Revised operational risk framework							Implementation					
	Revised market risk framework							Implementation					
	Output floor							50%	55%	60%	65%	70%	**72.5%**
Liquidity	Liquidity Coverage Ratio	80%	90%	**100%**									
	Net Stable Funding Ratio		**100%**										

Source: Basel Committee on Banking Supervision

3. Basel III implementation audits – global overview

The Basel Committee also separately audits the quality of the implementation by members. Since the audits are resource-intensive and take time, the assessments of the quality of implementation will only become available with a time lag after the final legislation is available. **Therefore, the information currently available on the Basel Committee website, and in particular the overview reproduced in Figure 2, is misleading.** A number of members have been assessed before Basel III had been finalised. Therefore, some of the compliance assessments refer to some intermediate version of the framework, whereas others have been carried out later and reflect the final framework. This way, jurisdictions such as the USA, Turkey or India appear as compliant or largely compliant in **Figure 3** although they are nowhere with their timeline of Basel III implementation according to **Figure 2**. In addition, the audit of the EU dates back to December 2014 for capital requirements and 2022 for liquidity and large exposures already. That said, the differences identified at the time are likely to remain also when compared to the final Basel III framework, as we discuss in **Section**

Figure 3: Basel III implementation audits as of April 2025



Source: Basel Committee on Banking Supervision

4. EU implementation of Basel III

The EU has completed the legislative phase of Basel III finalisation and is now moving into application and technical implementation. The Commission's October 2021 "banking package" (CRR III/CRD VI) was politically agreed upon in June 2023 and, following the final steps in Council and European Parliament, the new Capital Requirements Regulation (Regulation (EU) 2024/1623, "CRR 3") and Capital Requirements Directive (Directive (EU) 2024/1619, "CRD 6") were published in June–July 2024. As the Commission's official update notes, most CRR 3 provisions apply from 1 January 2025, whereas CRD 6 must be transposed and will apply from early 2026. In parallel, **co-legislators granted the Commission a delegated power to postpone by delegated act the market-risk chapter (FRTB) to preserve the international level playing field**; that power has been used to shift the FRTB start to the beginning of 2026. In June 2025 the European Commission adopted a second delegated act to move the application date from 1 January 2026 to **1 January 2027**. This last delegated act explicitly cites continuing divergence abroad - especially lingering uncertainty in the United States and the United Kingdom's own shift to a 2027 start - as the basis for preserving a level playing field for EU banks' trading activities. The Commission's Q&A clarifies that this is **the last postponement possible via delegated act** (the empowerment allows up to two years of deferral); any further adjustments would require different legislative steps, and the 2025 act remains subject to the standard three-month scrutiny by European Parliament and Council before taking effect.

Substantively, **the EU's transposition follows the Basel thrust** - tightening the definition and measurement of risk-weighted assets, introducing the 72.5 percent output floor, overhauling operational risk, and completing FRTB - **but it also contains a set of EU-specific calibrations and transitional adjustments that make the regime less binding during the phase-in**. The package entails elements beyond Basel, including a strengthened prudential approach to Environmental, Social and Governance risks (transition plans and supervisory integration) and a broadened toolkit on third-country branches and fit-and-proper assessments.

Where, then, does the EU diverge from the Basel text, and how material are those departures? On the **output floor**, three choices matter:

- The EU has opted for a **long phase-in to 2032**, during which the floor's bite is explicitly blunted by transitional recalibrations for certain non-modelled RWAs[1] (mortgages[2], unrated corporates, SA-CCR[3]).
- While Basel III only prescribes capital requirements and the highest level of consolidation of large internationally active banks, the European legislation requires the **floor to apply at both**

[1] Risk Weighted Assets; to note that the capital requirements are derived by measuring the risk as RWA (the term is used because traditionally, Basel and the EU capital requirements framework took the values of credit risky assets and multiplied them with risk weights. Nowadays, capital requirements for risks other than credit risk are converted into RWAs, too, for the sake of consistent optics. The ratio of RWAs to the capital a bank has is the bank's capital ratio.

[2] Article 465(5-12) CRR III allows Member States to introduce a transitional regime whereby, for the purposes of the output floor, the portion of exposures up to 55% loan-to-value may be risk-weighted at 10% (instead of 20%), and the portion up to 80% loan-to-value benefits from a reduced and gradually increasing risk weight (from 45% in 2029 to 67.5% in 2032, compared with 75% at full regime). Access to this preferential treatment is conditional on very low observed loss rates over the previous eight years, assessed on a rolling basis.

[3] Standardised Approach to Counterparty Credit Risk, i.e. the risk of a bank's capital markets counterparties defaulting, for instance on payments due under option contracts, where the amount at risks depends on price movements.

consolidated and solo level while supervisors may derogate from solo application and impose floors at (sub-) consolidated level instead.

- EU legislation opted for a "single-stack" design (namely, if the floor is binding, it not only increases the internationally agreed minimum requirement, but also any EU specific add-ons such as the systemic risk buffer)[4]; supervisors argue this mitigates complexity and arbitrage.

Application below consolidated level and the "single-stack" choice in tendency make the floor more impactful than in the Basel framework, however its impact is delayed by the long phase-in. Bruegel's assessment is that the floor will be "hardly binding before 2030, even not before 2033", and may localise bindingness at the consolidated level unless national authorities refuse derogations.

On **operational risk** (e.g., losses arising from human error, internal process failures, fraud, or cyberattacks), the EU exercised Basel's national discretion to **fix the Internal Loss Multiplier (ILM) equal to one for all institutions**, removing the (potentially pro-cyclical) link to loss history and simplifying implementation[5]. While Basel permits this, it mechanically lowers Pillar 1 charges for banks with high historical losses and lifts them for banks with very low losses; the EU choice therefore reduces dispersion but also contributes to making the final package less stringent for some large banks with loss histories.

On **credit risk**, EU-specific calibrations are more numerous. They include:

- the **continued use of supporting factors for SMEs and infrastructure**[6];
- the possibility of **upward revaluation of real-estate collateral after origination** (limited by an averaging cap)[7];
- **transitional relief for higher equity risk weights and for unconditionally cancellable commitments**;

[4] Article 92(3) of CRR requires institutions to compute one Total Risk Exposure Amount (TREA) as the maximum of the un-floored TREA and 72.5% of the fully standardised TREA, and then to use that single TREA wherever risk-based requirements and disclosures refer to "the" TREA (with the un-floored figure disclosed alongside, but not as a parallel capital stack). The recitals make the mechanics explicit: banks are to calculate two sets of total own-funds requirements (one based on internal models, one as if standardised approaches were used), "*each aggregating all own funds requirements without any double counting*" and the floor operates by setting a lower bound equal to 72.5% of the standardised set, thereby selecting a single binding requirement rather than running two stacks in parallel.

[5] Under the Basel standard, Pillar-1 operational risk capital is calculated as the product of the Business Indicator Component (BIC), i.e. a proxy of the size and the income of the bank, and the Internal Loss Multiplier (ILM), which adjusts the charge with a bank's own loss history via the "loss component" (LC), defined as 15 times the 10-year average of annual net operational losses.

[6] The SME supporting factor (Article 501 CRR) allows banks to apply multiplicative reductions to Pillar-1 own-funds requirements (or RWAs) for eligible SME exposures: a 0.7619 coefficient for the portion up to a specified exposure amount and 0.85 for the portion above that threshold, across SA and IRB, subject to eligibility limits (e.g., by exposure class and turnover). The infrastructure-supporting factor (Article 501a CRR) applies a 0.75 coefficient to qualifying infrastructure project exposures that meet prudential criteria.

[7] Banks can revalue real-estate collateral upward after origination, but it does so under a tight anti-cyclicality cap. Instead of freezing the "property value" at origination as in the Basel text, CRR3's updated Article 229 permits upward adjustments only up to the multi-year average of market values - six years for residential and eight years for commercial property - so that short-term price booms do not unduly lower loan-to-value ratios and risk weights. Two safeguards apply: if the institution lacks sufficient historical data, no upward revaluation is allowed; and values may exceed the average cap only when there are objective, value-enhancing modifications to the property (e.g., energy-efficiency or physical-risk resilience upgrades).

- permission to keep using the advanced internal ratings-based (A-IRB) approach available for a **dedicated exposure class covering regional and local governments** (RGLA) **and public sector entities** (PSE), but only under explicit input floors and eligibility conditions[8];
- **trade-finance conversion factors** are set below the Basel standard[9];
- **minimum haircut floors for Security Financing Transactions** (SFTs) are postponed[10];
- several CRR/CRD elements on **real-estate loan splitting and tests** differ in detail from the Basel text[11].

Credit Valuation Adjustment (CVA) and market-risk capital requirements are additional loci of divergence. On CVA, the EU maintains broad exemptions for derivatives with non-financial corporates, intragroup transactions, and public-sector entities, even after the Basel Committee recalibrated its own CVA framework downward[12]. We recalled further up that in the Basel Committee's audit of the EU implementation of the "half-ready" Basel III agreement, the EU was overall found "materially non-compliant". In fact, these CVA exemptions were the main driver of this negative assessment at the time. On market risk (FRTB), the EU has legally completed the rule but – as mentioned above - used the delegated power to defer application.

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8 In practice, banks may continue to model Probability of Default (PD) and Loss-Given Default (LGD) for these counterparties, while respecting a minimum PD floor of 0.03% and, for unsecured RGLA-PSE exposures, a minimum LGD floor of 5%.

9 Under the Basel text, transaction-related contingent items (e.g., performance guarantees and standby letter of credits related to the movement of goods) attract a 50% Credit Conversion Factors (CCF), while only short-term self-liquidating trade letters of credit are at 20%. By contrast, CRR3 maps a broader set of trade-finance transaction-related contingent items to the 20% CCF, via the Annex-I bucket structure (5 buckets) and the accompanying EBA technical standards.

10 In line with the EBA's 2019 advice, CRR3 does not implement those floors and instead hard-wires a review clause: the EBA, in cooperation with ESMA, must deliver a report within 30 months of entry into force (by 10 January 2027) on whether and how to implement the framework (including via market regulation rather than own-funds rules), after which the Commission may table legislation by 10 January 2028. The recitals explain the rationale for not proceeding now: lack of clarity in the Basel framework, reservations about the economic case for applying floors to some SFTs, and the risk of unintended market consequences (especially given the very short-term nature of SFTs and level-playing-field concerns).

11 Under Basel's final standards, supervisors may allow two methods for standardised real-estate RWAs: a *whole-loan approach* (one risk weight for the entire exposure, driven by LTV and whether repayment is materially dependent on property cash flows) and, at national discretion, a *loan-splitting approach* that treats the slice up to a defined LTV threshold as secured and the remainder as unsecured. This option was added late in the Basel process and historically existed in the EU CRR even before Basel finalisation, so the EU keeps it in CRR3 and calibrates the secured "slice" (e.g., 20% RW on the portion up to 55% LTV for certain residential mortgages), which is not spelled out in the same way in the Basel book. The EU also hard-codes tests that go beyond Basel's generic "operational requirements": (i) a "material dependence" test that splits exposures into general (non-IPRE) and Income-Producing Real Estate (IPRE), with higher RWs for the latter, and (ii) loss-rate "hard tests" under which IPRE exposures that meet stringent backward-looking loss thresholds can benefit from the more favourable non-IPRE LTV risk weights. These loss-based hard tests and their thresholds are an EU design choice, not a verbatim Basel feature. In addition, CRR3 introduces EU-specific valuation mechanics that affect both methods (the prudential "property value" concept and the upward-revaluation cap based on a 6-year average for residential and 8-year for commercial), which smooth pro-cyclicality and differ in detail from Basel's simpler "value at origination unless required to revise downward" convention. Taken together, these elements - loan-splitting calibration, hard-test backstops for IPRE, and the revaluation cap - make the EU implementation more prescriptive and, in places, more permissive than the Basel baseline while remaining within the envelope of national discretions the Basel text allows.

12 Article 382(4) CRR, as amended by CRR3, continues to exclude from CVA own-funds requirements: (i) derivatives with Non-Financial Counterparties (NFCs) that stay below EMIR's clearing threshold; (ii) a wide range of intragroup trades, both with NFCs and with financial counterparties, including with third-country affiliates where the Commission deems the third country's prudential regime "equivalent"; (iii) transactions with counterparties covered by EMIR Article 1(4)–(5) and those attracting a 0% risk weight under CRR Articles 114(4) and 115(2), i.e. central governments/central banks and qualifying public-sector entities. CRR3 even adds a reporting overlay: institutions must calculate and report the hypothetical CVA capital that would have applied to the exempted sets, and they may opt in to capitalise CVA on exempt trades when they use eligible hedges, but the exemptions themselves remain in force. The EU thus preserves a scope of CVA capital materially narrower than the Basel framework, even after the Basel Committee recalibrated CVA downward in its 2017 final package; this choice is explicitly discussed in the EBA's CVA policy advice and subsequent peer-review work, and the Commission's 2024 "Banking package" Q&A confirms the application timetable while leaving the legal exclusions intact.

How should these deviations be evaluated? To address this question, EGOV proposes to consider the EU-specific deviations against five benchmarks:

A first benchmark is whether the deviations impair the end-state prudential objective of Basel III finalisation, namely, to restore the credibility of risk-weighted capital by curbing model-driven RWA variability and by providing a robust standardised backstop. The ECB's Macroprudential Bulletin frames the EU package as resilience-enhancing in the long run. Deviations are acceptable only insofar as they do not compromise that end-state logic. In other words, transition can be flexible, but the destination should remain "Basel-faithful." In this regard, it should be emphasised that most deviations are indeed temporary; they facilitate banks' transition by phasing-in capital increases or postpone elements of the framework in light of international developments. Nevertheless, there are, with CVA risk exemptions and the SME/infrastructure supporting factors in particular, also certain permanent deviations. They generally reflect policy concerns outside the prudential framework, such as the availability of credit or financial hedging instruments for specific sectors of the economy. Accordingly, they can be understood as trying to balance prudential objectives and policy objectives outside the prudential sphere.

A second benchmark is whether the calibration allows applying higher requirements without disruption. The EBA's 2024 Basel III monitoring shows that, under the EU-specific CRR3/CRD6 scenario, the fully phased-in increase in minimum Tier 1 requirements for EU banks is modest - about 7.8% on average (8.6% for Group 1), down from about 10.1% in the prior year's like-for-like computation - with a small aggregate shortfall at full implementation (about 5.1 billion EUR in total capital, 0.3 billion EUR in CET1). This increase can be gradually digested over a long period until 2032. This empirical result supports the view that the EU has implemented Basel finalisation in a way that the system can absorb without destabilising credit, and it provides a factual yardstick for judging whether specific reliefs (e.g., supporting factors, CVA scope, trade-finance CCFs) are calibrated to smooth adjustment rather than to dilute the target.

A third benchmark is international consistency and level playing field. Here, the situation is complex since some jurisdictions internationally are far advanced with Basel III implementation, while others are behind and doubts are justified about the final outcome they might arrive at. While US and UK banks are key competitors, in particular in local foreign markets where EU banks are active level playing field concerns can also be material. Accordingly, the EU's implementation somehow balances level playing field concerns vis-à-vis jurisdictions that are rigorous in their implementation and those that do less so. A key element in this balance are timing choices: As mentioned above, the Commission's official Q&A makes explicit that certain timing choices - most visibly the FRTB deferral - were taken to preserve competitive parity while other major jurisdictions were still revising or delaying their own market-risk rules. This provides a principled justification for temporary timing deviations aimed at avoiding one-sided disadvantage. The same document, however, also fixes clear application dates for the other Basel components (e.g., CVA from 1 January 2025), signalling that the EU is not reopening the substance of the standard absent compelling reasons. The criterion here is thus twofold: deviations should be (i) internationally motivated and (ii) time-bound, with transparent governance about when they expire. Nevertheless, there are also permanent deviations and they seem to constitute a mixed back from a level-playing field perspective. Supporting factors and CVA exemptions allow doing business with lower capital requirements than international peers, but EU specific requirements such as risk buffers, compounded by the particularities of the floor implementation, have the opposite impact.

A fourth benchmark is governance credibility, i.e. whether deviations are accompanied by review clauses, evidence requirements and institutional commitments that keep the reform on track. On this front, the EU has embedded formal reviews and reporting mandates (e.g., EBA annual monitoring; EBA/ESMA reporting on specific open topics), and the EBA's Work Programme steady technical progress on the Single Rulebook and on the calibration work that operationalises Basel III in EU law. Credibility is strengthened when reliefs are explicitly monitored, and when policymakers commit ex ante to revisit or unwind them if they fail to meet their stated goals. This is consistent with the ECB's position that the impact of deviations from the Basel standards should be periodically assessed against the stated policy objectives.

A final, albeit different, benchmark is external validation. This is a procedural rather than a substantive test: unlike the criteria above, it is not something we can apply ourselves, but it remains relevant as it provides an external yardstick and a source of accountability. The IMF's 2025 euro-area consultation underscores that, when assessing EU-specific deviations, it is relevant that the EU applies the Basel framework across the entire banking system – not only to G-SIBs – in a way that strengthens safety and soundness, supports financial stability, and limits scope for regulatory arbitrage. It also notes that many of the departures are transitional and should be read within the broader EU prudential architecture and against implementation timetables in other jurisdictions, even as the IMF continues to call for full, timely, and faithful implementation of Basel standards. Complementing this, recent policy analysis warns that "simplification" should not be a pretext to reduce capital, again offering a criterion to separate legitimate streamlining from dilution. We would also expect that the Basel Committee will at some point proceed to an audit of the EU implementation under its Regulatory Capital Assessment Program.

Applying these tests, **EGOV arrives at a balanced assessment**. Timing deviations such as the FRTB deferral are framed as transitional and are accompanied by the European Commission's stated commitment to preserving the international level playing field, including a mandate to monitor implementation in other jurisdictions and to adjust if significant divergences emerge. While this framing emphasises the importance of safeguarding competitive neutrality across major markets, the transitional nature of this regime – confirmed by the fact that the Commission's power to extend the deferral is limited in scope and duration – suggests that it should go hand in hand with broader efforts to encourage Basel implementation across jurisdictions. If not firmly anchored in the commitment to the Basel end-state, such measures could otherwise be seen as contributing to a broader softening of standards. Calibrations that ease the transition – such as transitional treatment within the output-floor mechanics – can be seen as proportionate where EBA evidence indicates limited capital impact and where they are coupled with robust monitoring and clear sunset or review provisions. By contrast, more substantive and open-ended carve-outs that would persist into steady state and materially narrow the scope of risk coverage could risk weakening the very comparability and backstop functions the floor and revised standardised approaches are intended to provide; such measures would be difficult to reconcile with the effectiveness and credibility objectives of the reform. Accordingly, **deviations should remain anchored to transparent review mechanisms that sustain alignment with the international minimum. On current evidence, the EU framework includes these safeguards**; the policy priority is to apply them consistently and to recalibrate promptly if monitoring points to unintended effects as the 2025–2033 phase-in progresses.

Considering the implementation against these benchmarks, it is clear that the legislator has sought to strike a balance between a range of objectives. At a high level, and in particular in the long run, **Europe puts the Basel framework in place and even the permanent differences are ultimately limited modifications**

within that framework rather than broad departures from it. Nevertheless, we should also mention that several banking- and finance-focused think tanks - see e.g. Bruegel (here and here) and Finance Watch advance a **critical reading of the EU's transposition of the Basel III standards**. While their emphases differ, these critiques converge along three axes. First, **effectiveness**: EU design choices (extended phase-ins, transitional reliefs, and jurisdiction-specific calibrations) postpone when the rules genuinely bind, weakening incentives to curb model-driven RWA variability and dampening the reforms' near-term prudential bite. Second, **consistency**: EU-specific deviations reduce cross-jurisdiction comparability and invite regulatory arbitrage, undermining the common yardstick Basel is meant to provide. Third, **credibility**: repeated delays and carve-outs erode confidence that the EU will implement what it negotiates, diluting the informative content of capital ratios for markets and peers and risking a lowest-common-denominator dynamic internationally.

5. US implementation of Basel III

In July 2023, the leading U.S. banking regulators – the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) – put forward a proposed reform of bank capital rules in order to implement the final components of the Basel III framework. This proposal – often referred to as the **Basel III Endgame** – also purported a material change of the US regulatory approach that applies – by contrast to the EU regime – markedly different rules to different tiers of banks in terms of size. In tendency, more rigorous standards apply to larger banks. Among the most significant proposals thus was the broadening of the scope of banks subject to the most rigorous standards. Whereas previous U.S. rules had reserved the strictest capital requirements for the 8 Global Systemically Important Banks (G-SIBs), the Endgame proposal extended these obligations to all institutions with 100 billion USD or more in assets. This would have brought 37 banks into the tighter regime, including large regional lenders that had previously enjoyed a more lenient regulatory treatment.

At its core, **the reform appears to focus on strengthening capital requirements and making them less dependent on banks own measurements, even beyond what had been agreed in Basel**. The FDIC estimated that the 2023 Endgame proposal would have **increased the capital requirements for the US G-SIBs by around 16 to 25%**, thus by substantially more that the EU implementation discussed above. There are several sources of this extraordinary steep increase. First, **the US proposed to practically eliminate the use of the Internal Ratings-Based (IRB) approach for credit risk**, so that even the largest banks would have had to resort to the (Basel II-Revised) Standardised Approach (RSA) for credit risk, which is not only less risk sensitive but leads also on average still to somewhat higher capital requirements (although a central aim of the Basel Committee's reform was to make the RSA more risk sensitive than its predecessor and to reduce the gap in the average results, whereas the original relative calibration of IRB and RSA was meant to incentivise banks to adopt the IRB approach). It should however be noted that already since the Dodd-Frank act / the so called Collins amendment in 2010, the US required the large banks to run the RSA in parallel to the IRB and undid with a 100% floor any benefit large banks could have had from calculating IRB requirements lower than those under the RSA.

In addition, **the proposal also purported to tighten capital requirements for a number of important asset classes.** While U.S. rules had previously applied a flat 50% risk weight to most conforming mortgages, Basel III introduced a more granular approach tied to the Loan-To-Value (LTV) ratio, with lower ratios treated as safer. The U.S. version adopted this structure but made it **more conservative by assigning risk weights to mortgage loans that are 20% higher than the international standard across the board**. Further on credit risk **the US proposals entailed a mark-up of 10% over Basel's risk weight of 75% for qualifying retail loans** and over the 100% for other retail loans. There is also a **range of other preferential risk weights**, such as for certain SMEs, investment-grade rated corporates and qualifying banks and non-bank financial institutions that the US proposal did not take on board from Basel. Then, in the area of securitisation, the US proposals forego the opportunity to give a preferential treatment and thus some incentives to Simple, Transparent and Comparable securitisation (similar to the European preferential treatment for STS securitisation).

Further increases likely stemmed from a **particularity in the treatment of operational risk**. Under the international Basel framework, a bank's capital requirement for operational risk was partially determined by its own track record: the Internal Loss Multiplier (ILM) rewarded banks with fewer past losses by reducing their capital charge. While the EU implementation used a national option to neutralise the ILM, the U.S. proposal imposed a floor on the ILM, eliminating any benefit from strong operational loss histories while allowing bad loss histories to increase the requirement. Finally, as to **market risk, the proposals largely followed Basel III** with the exception of not allowing to model default risk in the trading book. That said, the changes by the Basel Committee alone are likely to have an important impact on the investment banking business of the large US banks. In another controversial move, the US proposals intended not to give any **exemptions from counterparty and CVA risk requirements for client cleared derivatives** (i.e. derivative exposures to clients that are matched by "pass-through" trades with a central counterparty and margined and collateralised accordingly), a measure that might have dis-incentivised central clearing of derivatives .

As to timing, the US proposals envisaged a date of application of July 2025 for the Basel III framework, with a phasing-in until July 2028. According to this plan, the **US would have started two years late with Basel III** implementation, but **it would nevertheless have made the final phase-in date envisaged** in the agreement. This would have been thanks to a more aggressive phasing-in than in the EU implementation, despite a potentially higher impact on banks.

The initial proposal triggered a **storm of opposition**. More than 97% of comment letters submitted opposed the plan, with many financial institutions and industry groups warning that it would significantly increase borrowing costs, suppress lending, and hurt U.S. competitiveness. Pension funds also expressed concern, arguing that the new risk calculations would distort their operations.

Regulators initially defended the proposal as a necessary safeguard, stressing that stricter rules would force banks to "internalize the risks of their operations", but the political and industry backlash was overwhelming. Faced with this opposition, U.S. regulators announced a **revised proposal** in a speech in September 2024. **While this revised proposal was actually never released for public comment and only described in the speech in general terms, it appears that it basically rolled back most of the proposed deviations to the upside from Basel III (see Table 1).** The revised package was estimated to **reduce the expected rise in the CET1 to about 9% for G-SIBs**. For other large institutions in the 100 to 250 bn USD total assets bucket, the intention seems to provide far-ranging relieve, so that the capital impact was estimated to be a 3-4% increase, stemming mainly from the requirement to include unrealized gains and losses on securities in regulatory capital (an element of Basel III from which US banks in that size bucket had been spared previously).

Reactions to the planned revision revealed a deep split. The banking industry, which had fiercely opposed the original draft, welcomed the rollback. By contrast, some regulators remained uneasy. FDIC Member Rohit Chopra criticized the re-proposals, warning that the looser framework could leave blind spots in banks' exposure to volatile conditions and would undermine the goal of strengthening bank capital. Legal and policy experts also noted that the re-proposal was shaped not only by industry lobbying but by an **evolving judicial environment** that made regulators more cautious about pushing aggressive rules.

Indeed, the Supreme Court's 2024 decision in *Loper Bright Enterprises v. Raimondo* affected the Basel III Endgame. By overturning the longstanding Chevron doctrine, the Court held that judges "may not defer to an agency interpretation of the law". This dramatically **reduced agencies' discretion in interpreting their statutory authority**. In parallel, the Court had already strengthened the "major questions doctrine," most notably in *West Virginia v. EPA* and *Biden v. Nebraska*, where it struck down agency actions deemed too sweeping for Congress to have plausibly authorized. Taken together, these rulings created an **atmosphere of judicial scepticism toward expansive regulatory initiatives**.

Table 1 – Comparison of the 2023 Basel III Endgame Proposal and the September 2024 Re-proposal

Area	2023 Proposal	September 2024 Re-proposal
Overall CET1 impact	Average increase of 16–25% for large banks, concentrated on G-SIBs and large regionals.	Reduced to about 9% for G-SIBs; only 3–4% for other large banks; mid-sized banks (100–250bn assets) largely exempt.
Scope of application	All banks with more than 100bn assets subject to stricter standards.	Banks with 100–250bn assets exempt from most new rules (except for unrealized gains and losses recognition). Rules apply mainly to G-SIBs and very large banks.
Credit risk	Higher risk weights: residential mortgages risk-weighted by Loan-to-Value (LTV) + 20 percentage points above Basel; stricter treatment of retail and corporate exposures.	Lowered risk weights for mortgages and retail loans; more favorable treatment for exposures to regulated entities; removal of haircut floors for securities financing; lighter charges for tax-credit equity structures.
Operational risk	Based partly on income and historical loss data (ILM); banks with poor track records faced higher charges.	Reliance on loss history removed; requirements recalibrated based on net income; lower charges for asset management activities.
Market risk	Adoption of Expected Shortfall (ES) to replace VaR; strict and immediate profit-and-loss attribution tests; higher capital for client-cleared derivatives.	Retains ES but with longer transition period for P&L attribution tests; lower capital charges for client-cleared derivatives.

Source: EGOV elaboration

For banking regulators, the evolving legal environment created by the Supreme Court's decision in *Loper Bright* carried significant implications. The Federal Reserve's September 2024 re-proposal already appeared shaped by a desire to insulate new rules from judicial invalidation, while banks, emboldened by the precedent, quickly turned to litigation against the Fed's stress test framework, demanding greater transparency. This combination of legal uncertainty and shifting political dynamics fuelled widespread expectations that the Basel III Endgame would ultimately be scaled back, if not abandoned altogether. Markets internalized this sentiment, as reflected in an 11 percent surge of the large-cap bank index following Trump's electoral victory.

The latest turn in the US Basel III story **came in the summer of 2025, when financial press outlets reported that the Federal Reserve is working on a further revised proposal for the Endgame**. Lead by Acting Vice-Chair for Supervision Michelle Bowman, the initiative reportedly aims to ease the regulatory burden on large U.S. banks by simplifying capital calculations, with final adoption anticipated in early 2026. For context, **Ms. Bowman has been nominated by US President Trump for the role and has announced in a speech a broad agenda to review regulation and supervision**. For instance, she plans to adjust supervisory ratings for the largest banks, which we believe might translate into **lower bank-individual "Pillar 2" capital add-ons**. As to capital, she announced a **review of leverage ratio requirements of large banks**, which she believes have become too binding, and also that Basel III implementation will be discussed at a conference the Fed would host. To be sure, the speech does not directly announce a further reduction of the proposed Endgame requirements, but it is also notable that the speech does not refer to international commitments made by the US authorities in the Basel context. In the meantime, the announced policy conference has taken place, but from the available reporting **it does not seem that US officials have given away much about their intentions on Basel III**

Overall, it seems safe to say that **any future US Basel III implementation will not entail the deviations to the upside initially announced**. However, the changed political climate and the above-mentioned legal challenges cast some farther-reaching doubts onto the when and how of US Basel III implementation. The renewed delays are not only making the original ambitious plan for implementing and phasing in questionable. There is also the question if they hint at **doubts in the US about the merits of Basel III more broadly**, in particular as regards mid-tier US banks for which, not least against the background of the Silicon Valley Bank troubles, a modernised regulatory framework would have certainly been desirable. It is probably also safe to say that, after the announcements in September 2024 appeared to roll back al deviations from Basel on the upside, any **ongoing deliberations probably focus on the possibility of deviations from Basel to the downside**.

6. UK implementation of Basel III

The UK was still an EU Member State when the original version of Basel III, or the pre-final Basel III was implemented in the EU back in 2013. Consequently, it has **inherited the EU version of the preliminary Basel III standard**, and it has not implemented the final Basel rules yet.

In December 2023 (on market risk, counterparty risk, operational risk) and in September 2024 (on credit risk, output floor, disclosures) the Bank of England published two **"near-final policy statements"** of the Prudential Regulation Authority (PRA) that together set out how the remainder of Basel III will be implemented in the UK. They are referred to as near-final since the PRA at this point does not have the legal power to adopt them as binding regulation. To this end, a **"statutory instrument"** is yet to be proposed by the Treasury ministry and to be adopted by the UK Parliament; a draft is currently out for public comment. This instrument would **repeal existing bank prudential regulation still in force from the UK's time as EU Member State and grant the PRA authority to adopt new binding prudential rules**.

By publishing near-final rules, the PRA gives banks some certainty as to what the rules will eventually look like. That said, changes are still possible and we understand that notably in the area of market risk and securitisation there is ongoing work by the PRA. As they stand, the **near-final rules closely align with the Basel standards**. In particular, they would also **undo some differences with Basel inherited from EU legislation**, such as the CVA exemptions. We understand there are the following **differences worth flagging**, though:

- for **UK residential retail mortgages**, banks have to apply a floor of 0.10 % instead of 0.05% to their own default-probability estimates. The PRA justified this higher probability-of-default (PD) floor as a safeguard against structurally low RWAs on UK IRB mortgage portfolios and the scarcity of default data at very low PD levels; and
- for **qualifying SME and infrastructure lending**, the PRA intends to make a "structural adjustment" to the bank-specific Pillar 2 requirements that corresponds to the supporting factors in the EU legislation. We understand the PRA aims to avoid a departure from Basel in this regard under the regulatory Pillar 1 capital requirements but would still like to give the UK banks the same benefit as EU banks have in terms of reduced capital requirements overall.

The PRA announced on 17 January 2025 that the **implementation of Basel 3.1 in the UK will be delayed by one year to 1 January 2027**. The delay was explicitly justified by uncertainty around the timing of implementation in the US and by competitiveness and growth considerations. In addition, the PRA proposed that the rules on **internal models for market risk could be postponed by one additional year to 1 January 2028**, allowing banks with existing internal models to operate for one more year under the current framework. The PRA explains that this way, banks would not be confronted with different rules for their internal models in different jurisdictions; however, one might note that the EU start date for internal models is 2027 so that the additional delay in UK might have US investment banks in London in mind in particular. The **PRA intends to phase-in the output floor by 2030**, as opposed to 2028 in the Basel framework and 2032 in the EU legislation.

Table 2 – Main EU deviations from Basel standards

Area	Basel baseline	EU implementation (CRR3/CRD6)	Deviation type	Comments
Output floor – phase-in	72.5% floor intended to restore RWA comparability; global start targeted for 2023 with phased application	Extended EU phase-in to 2032, with transitional recalibrations that blunt the non-modelled RWA leg (e.g., mortgages, unrated corporates, SA-CCR) during phase-in	Timing, calibration	Delays bindingness of the floor; some analyses suggest it may hardly bind before 2030–2033.
Output floor – level of application	Basel focuses on consolidated application	Applied "in principle" at consolidated and solo level, but Member States may derogate from solo application (sub-consolidated option)	Scope, design	Risk that bindingness localises at group level if solo derogations are used.
Output floor – stack design	Basel does not prescribe EU's structural choice	Single-stack design (one TREA base binding simultaneously for modelled and standardized requirements)	Design	Supervisors argue it reduces complexity/arbitrage;
Operational risk – ILM	ILM may reflect loss history; national discretion exists	ILM fixed at 1 for all institutions	Calibration	Removes link to loss history; lowers Pillar 1 for banks with high past losses, raises it for those with very low losses; reduces dispersion but can be less stringent for some.
SME & infrastructure supporting factors	No Basel-wide Pillar-1 discounts	Retention of supporting-factor reductions for SMEs and infrastructure under SA/IRB	Calibration	EU-specific capital relief beyond Basel minimums.
Real-estate collateral revaluation	Anchored to origination (with downward updates)	Permits upward revaluation after origination, subject to multi-year averaging cap (e.g., 6-year residential; 8-year commercial)	Calibration, methodology	Smoother, less pro-cyclical recognition of rising values than Basel's set-up.

Area	Basel baseline	EU implementation (CRR3/CRD6)	Deviation type	Comments
Equity RW & cancellable commitments – transitionals	End-state calibrations apply as set	Transitional relief for higher equity risk weights and cancellable commitments	Timing, calibration	Softens near-term impact relative to Basel end-state.
IRB for RGLA & PSE	Basel finalization tightens IRB eligibility in several asset classes	Keeps A-IRB for regional/local governments (RGLA) and public-sector entities (PSE) with input floors and eligibility conditions	Scope, calibration	Allows modelling (with floors) where Basel baseline is more restrictive; may yield lower RWAs vs a strict Basel reading.
Trade-finance CCFs	50% CCF for transaction-related contingents; 20% mainly for short-term self-liquidating L/C	Maps a broader set of trade-finance contingent items to 20% CCF	Calibration	More lenient standardized backstop for trade-finance off-balance-sheet items.
Minimum haircut floors for SFTs	Basel foresees minimum collateral haircut floors (non-centrally cleared SFTs)	Implementation postponed in EU framework pending review	Timing	Keeps floors out of Pillar 1 for now; subject to EU review clauses.
Real-estate: loan-splitting & hard tests	Basel permits options but is less prescriptive on EU-style tests	Maintains loan-splitting and adds detailed tests (e.g., IPRE 'hard tests') differing in detail from Basel text	Design, calibration	More prescriptive EU mechanics; some elements more permissive, others more granular, vs Basel baseline.
CVA scope	Basel recalibrated/narrowed CVA without broad exemptions for NFCs/intragroup/PSE	Maintains broad exemptions for non-financial corporates, intragroup trades, and certain public-sector entities	Scope	Narrows CVA capital perimeter vs Basel, reducing risk sensitivity and cross-jurisdiction comparability.
Market risk (FRTB) timing	Earlier Basel start envisaged; several peers delayed	EU completed FRTB law but deferred application (via delegated acts) to 1 Jan 2027	Timing	Rationale: level playing field amid foreign delays; Commission indicated this is the last deferral possible via delegated act.

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