

MEMORANDUM

TO: FDIC Board of Directors

FROM: Ryan Billingsley
Director, Division of Risk Management Supervision

DATE: March 19, 2026

SUBJECT: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations

SUMMARY

Staff presents for approval by the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) a request to publish in the *Federal Register* the attached interagency notice of proposed rulemaking (expanded risk-based proposal or proposal) by the FDIC, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (collectively, the agencies). The expanded risk-based proposal would modernize the minimum risk-based capital requirements applicable to the largest banking organizations and those with significant trading activity.

Specifically, the proposal would remove the use of internal models from the credit risk framework and revise the standardized approach by providing more granular, risk-sensitive treatments and introducing several new credit exposure categories. The current models-based approach for operational risk would be replaced with a standardized approach that uses income and expense items to proxy operational risk and determine an operational risk capital requirement. The market risk framework also would be replaced with both standardized and models-based approaches that better capture tail risk in a severe economic downturn. In addition,

Concur:

Matthew P. Reed
General Counsel

the proposal would simplify a core design feature of the current framework by no longer requiring large banking organizations to determine two sets of risk-based capital ratios and hold capital against the more stringent of the two. The proposal also would revise the treatment of mortgage servicing assets by removing the regulatory capital deduction requirement.

RECOMMENDATION

Staff presents to the FDIC Board for approval the attached expanded risk-based proposal and requests authorization to publish it in the *Federal Register* with a public comment period that closes on June 18, 2026.

DISCUSSION

I. Introduction

The expanded risk-based proposal aims to improve the capital framework for covered banking organizations by enhancing its risk sensitivity, reducing complexity, and improving consistency. The proposal intends to achieve these objectives by improving the alignment of a banking organization's capital requirements with the risk of its exposures. Requirements under the expanded risk-based proposal would generally be consistent with international capital standards issued by the Basel Committee on Banking Supervision (Basel Committee). Where appropriate, however, the expanded risk-based proposal would differ from the standards published by the Basel Committee (Basel standards) to reflect specific characteristics of U.S. markets, banking organizations, statutory mandates, and policy objectives.

Staff expects the proposal would support the safety and soundness of covered banking organizations and U.S. financial stability while promoting lending and other financial intermediation activities over a range of economic conditions.

II. Overview of the Expanded Risk-based Proposal

The expanded risk-based proposal would streamline the risk-based capital requirements applicable to Category I and II banking organizations.¹ Currently, these banking organizations are subject to two sets of risk-based capital ratio requirements: one based on the standardized approach (which also generally applies to other banking organizations) and the other based on an internal models framework.² Under the expanded risk-based proposal, Category I and II banking organizations would be subject to a single set of risk-based capital ratio requirements based on the “expanded risk-based approach” (ERBA)—which would include standardized requirements for credit risk, equity risk, and operational risk—and revised market risk framework. The expanded risk-based proposal would also change the definition of regulatory capital applicable to Category I and II banking organizations by removing the threshold-based deduction for mortgage servicing assets.

Other banking organizations could choose to adopt ERBA. Banking organizations that choose ERBA would also be subject to the definition of capital that applies to Category I and II banking organizations under the capital rule.³ Any change in election between ERBA and the standardized approach would take effect 12 months after the date on which the banking organization provides written notice of the change in election to its primary Federal supervisor.

¹ Category I standards apply to U.S.-domiciled bank holding companies identified as global systemically important BHCs and their depository institution subsidiaries. Category II standards apply to banking organizations with at least \$700 billion in total consolidated assets or at least \$75 billion in cross-jurisdictional activity. *See* 12 CFR 324.2; 12 CFR 252.5.

² *See* 12 CFR part 324, subparts D and E.

³ This definition of capital would include the requirement to reflect accumulated other comprehensive income (AOCI) in regulatory capital and to use the deductions framework that applies to Category I and II banking organizations. For a banking organization that chooses to adopt the proposed ERBA, the inclusion of most elements of AOCI in regulatory capital would be subject to a transition period of five years from the effective date of any final rule.

The expanded risk-based proposal would also replace the market risk framework, which would be applicable to Category I and II depository institution holding companies and to other banking organizations with significant trading activity. Significant trading activity would be defined to mean (1) more than \$5 billion in trading activity or (2) trading activity equal to or higher than 10 percent of the banking organization's total assets. The new framework would improve risk sensitivity and consistency by introducing a new standardized measure for market risk, a new models-based measure for market risk, and a new framework for credit valuation adjustment (CVA) for derivative exposures.⁴ The CVA framework would apply to (1) Category I and II depository institution holding companies, (2) depository institutions that are subsidiaries of Category I or II depository institution holding companies, if they have significant trading activity (as defined above), and (3) other banking organizations with significant trading activity that also have at least \$1 trillion in notional derivative exposure.⁵

Under the expanded risk-based proposal, certain dollar-based thresholds would be adjusted in the future to reflect inflation, pursuant to a pre-determined indexing methodology 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 approach would preserve threshold levels in real terms and ensure that the applicability thresholds in the framework maintain general alignment with their intended application and policy objectives over time.⁶

The expanded risk-based proposal would also revise disclosure requirements to facilitate market participants' understanding of the financial condition and risk management practices of

⁴ CVA risk is the exposure to changes in the valuation of derivative contracts driven by changes in counterparty credit risk.

⁵ For purposes of this memorandum, unless otherwise noted, the revised market risk framework is inclusive of requirements for CVA risk, as applicable.

⁶ This would generally align with the methodology used to adjust certain thresholds within FDIC regulations. *See* Adjusting and Indexing Certain Regulatory Thresholds, 90 FR 55789 (Dec. 1, 2025).

banking organizations subject to the expanded risk-based proposal. To align with these revisions, staff anticipates proposing revisions to the reporting forms that apply to covered banking organizations; specifically, the Call Report for depository institutions and the FR Y-9C for bank holding companies. In addition, the expanded risk-based proposal would make technical amendments and clarifications to certain provisions of the capital rule.

Concurrently with the expanded risk-based proposal, staff is presenting a request for approval from the FDIC Board to publish a separate interagency notice of proposed rulemaking to modify the standardized approach, which would apply to banking organizations that do not use ERBA or the community bank leverage ratio framework (standardized approach proposal).

III. The Expanded Risk-based Proposal

A. Definition of Capital

The expanded risk-based proposal would broadly maintain the definition of capital for Category I and II banking organizations in the current capital rule, with a modification to eliminate the requirement to deduct mortgage servicing assets (MSAs)⁷ above a threshold from common equity tier 1 capital. Instead, all MSAs would be subject to a 250 percent risk weight, consistent with the treatment in the current capital rule for MSAs that do not exceed the deduction threshold.⁸

B. Calculation of risk-weighted assets under ERBA

1. Credit risk

The expanded risk-based proposal would enhance the risk-sensitivity of the treatments

⁷ An MSA arises when a banking organization sells a loan to a third party but retains the obligation to service the loan in exchange for a fee. Banking organizations may also purchase, sell, or transfer MSAs separately from the underlying mortgage loans.

⁸ The standardized approach proposal would make the same modification to the definition of regulatory capital for all other banking organizations.

used to measure risk-weighted assets for credit risk. Specifically, the proposal would introduce more granular risk weights that vary based on risk factors related to the creditworthiness of the borrower and type of transaction. The proposed risk factors are intended to balance risk sensitivity with simplicity and are based largely on risk factors that are typically included in a banking organization's underwriting process. Beyond risk factors, enhancements to risk sensitivity would be achieved through improved exposure methodologies and enhanced recognition of credit risk mitigants.

For example, the expanded risk-based proposal would differentiate the credit risk of real estate exposure largely through the use of the loan-to-value (LTV) ratio. For corporate exposures, a banking organization would be permitted to assign a risk weight to an obligor that is investment grade based on the banking organization's internal ratings system, subject to certain criteria.

The expanded risk-based proposal would largely incorporate the treatments for credit risk mitigants from the current standardized approach, including collateralized transactions, guarantees, and credit derivatives, with improvements to enhance risk sensitivity. For example, to determine the exposure amount for eligible margin loans, repo-style transactions, or the netting sets of such transactions, the proposed ERBA would revise the collateral haircut approach under the current capital rule with modifications to the market price volatility haircuts and a modified formula that reflects netting and diversification benefits.

To determine the exposure amount for derivative contracts, the proposed ERBA would require banking organizations to apply the standardized approach for counterparty credit risk (SA-CCR) with certain modifications. For risk-based capital purposes, the expanded risk-based proposal would revise SA-CCR to recognize qualifying cross-product master netting agreements

for non-cleared transactions and incorporate certain non-cleared (such as client-facing) repo-style transactions and permit the netting of collateralized-to-market and settled-to-market client-facing derivative transactions. The proposal also includes technical revisions to assist banking organizations in implementing SA-CCR.

The expanded risk-based proposal would also introduce eligible prepaid credit protection arrangements as a credit risk mitigant available to all exposure types, including securitizations, and permit banking organizations to recognize the credit risk mitigation benefits of the protection amount of the prepaid credit protection arrangement, discounted to reflect any applicable maturity and currency mismatch adjustments.

The proposed securitization framework would largely be based on the securitization framework in the current standardized approach with certain modifications to improve its risk sensitivity such as a new treatment for certain senior securitization exposures and a new framework for non-performing loan securitizations.

Similarly, the expanded risk-based proposal would adopt an equity framework to calculate risk-weighted assets for all equity exposures that is largely consistent with the current standardized approach, except that the expanded risk-based proposal would simplify the treatment of conditional commitments to acquire an equity exposure by removing the differentiation of conversion factors by maturity. For banking organizations with significant trading activity that are subject to market risk capital requirements, the proposed equity framework would be used to determine capital requirements for illiquid or infrequently traded equity exposures.

Finally, any increased burden associated with enhanced risk sensitivity would be partially mitigated as a banking organization subject to ERBA would follow similar mechanics to those in

the current standardized approach to determine its risk-weighted assets for credit risk and many exposure classes would apply the same credit risk weights provided in the current standardized approach. See Appendix A for a more complete list of exposure classes with revised credit risk weights under the expanded risk-based proposal.

2. Operational Risk

The expanded risk-based proposal introduces a standardized approach for operational risk, which would replace the advanced measurement approaches in the current capital rule. The standardized approach would use income and expense items to proxy operational risk and determine an operational risk capital requirement.

Consistent with the Basel standards, risk-weighted assets for operational risk would be equal to 12.5 times the business indicator component.⁹ The business indicator component would provide a measure of operational risk exposure and would be calculated based on its business indicator multiplied by scaling factors that increase with the business indicator. The business indicator would serve as a proxy for a banking organization's business volume and would be based on reported income and expenses. All inputs to the business indicator would be based on three-year rolling averages, which would capture a banking organization's activities over time and help reduce the impact of temporary fluctuations.

To improve the risk sensitivity of the standardized approach for operational risk, the contribution of income and expenses arising from investment management, investment services, and non-lending treasury services would be reduced by 70 percent (relative to the Basel standard) to reflect their historically lower operational risk as evidenced by operational loss data.

⁹ 12.5 is the amount by which the measure of operational risk exposure needs to be multiplied so that the risk-weighted assets it generates are equivalent to an 8 percent total capital requirement.

3. Market risk framework

The expanded risk-based proposal would introduce a new risk-sensitive standardized measure for market risk and a new models-based measure for market risk to replace the current market risk capital rule. Specifically, the proposal would replace the value at risk (VaR)-based measure of market risk with an expected shortfall-based measure that better captures the liquidity risks of the underlying risk factors with varying liquidity horizons. The standardized measure for market risk would be the default methodology for calculating market risk capital requirements for all banking organizations; however, a banking organization would be required to obtain prior approval from its primary Federal supervisor to use the models-based measure for market risk.

In contrast to the current framework, which allows use of internal models at the level of the consolidated banking organization,¹⁰ the proposal would introduce the concept of a trading desk and restricting application of the new models-based approach to the trading desk level. Additionally, a banking organization would be required to conduct and successfully pass a backtesting requirement and a profit and loss attribution (PLA) test requirement in order to use the models-based approach for each trading desk. The trading desk-level approach is intended to limit use of the models-based approach to only those trading desks that can appropriately capture the risk of market risk covered positions in a banking organization's internal models. Since the PLA test would be a new testing requirement, the proposal would provide a three-year transition period during which there would be no automatic consequences based on PLA test results, allowing banking organizations the necessary time to implement the test and for the agencies to evaluate its efficacy. The proposal also would help promote consistency and comparability in market risk capital requirements across banking organizations by strengthening the criteria for

¹⁰ Subject to approval by the primary Federal supervisor.

identifying positions subject to the proposed market risk capital requirement, including the treatment of risk transfers between a trading desk and another unit within the same banking organization. Additionally, the proposal would improve the transparency of market risk capital requirements through enhanced disclosures.

4. Credit valuation adjustment (CVA) risk

The expanded risk-based proposal would provide two measures for calculating CVA risk capital requirements: (1) the basic approach for CVA capital requirement (BA-CVA), which recognizes only the credit spread component of CVA risk, and (2) a standardized approach for CVA (SA-CVA), which would account for both the credit spread and exposure components of CVA risk and allow a banking organization to recognize hedges for the exposure component. Under the proposal, only a banking organization that uses SA-CCR for counterparty credit risk would be eligible to use the standardized measure to calculate its CVA risk capital requirements.¹¹ Additionally, the proposal would require a banking organization to receive prior approval from the primary Federal supervisor to use the SA-CVA approach. The proposal would define a CVA risk covered position as a derivative contract that is not a client-facing derivative transaction or cleared transaction and would allow a banking organization to choose to exclude an eligible credit derivative for which the banking organization recognizes credit risk mitigation benefits from the calculation of its CVA risk capital requirement.

¹¹ The expanded risk-based proposal would require banking organizations that use the current exposure methodology to calculate exposure amounts for counterparty credit risk to use the BA-CVA measure to calculate CVA risk capital requirements.

CONCLUSION

Staff presents to the FDIC Board the attached expanded risk-based proposal for approval and requests authorization to publish it in the *Federal Register* with a comment period ending June 18, 2026.

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APPENDIX A – Significant Changes to Credit Risk Capital Requirements

Category	Current Rule (GA Rule)	ERBA Proposal
Depository institutions	<ul style="list-style-type: none"> • Domestic: 20% • Foreign: 20% to 150% based on CRC ratings, OECD membership and default history 	<ul style="list-style-type: none"> • 20% to 150% based on creditworthiness, including capitalization levels
Residential mortgages	<ul style="list-style-type: none"> • 50% for prudently underwritten first-lien residential real estate exposures • 100% otherwise (including past due residential mortgages) 	<ul style="list-style-type: none"> • 20% to 150% based on underwriting standards, LTV ratios, and whether dependent on cash flows as a source of repayment
Commercial real estate (excluding acquisition, development or constructions loans and high-volatility commercial real estate)	<ul style="list-style-type: none"> • 100% 	<ul style="list-style-type: none"> • Borrower risk weight up to 150% based on underwriting standards, LTV ratios, and whether dependent on cash flows as a source of repayment
Corporates	<ul style="list-style-type: none"> • 100% 	<ul style="list-style-type: none"> • 65% to 150% depending on whether investment grade, project finance, or subordinated
Retail	<ul style="list-style-type: none"> • 100% 	<ul style="list-style-type: none"> • 45% to 100% depending on repayment history, size of exposure, product type and borrower type
Subordinated debt	<ul style="list-style-type: none"> • 100% 	<ul style="list-style-type: none"> • 150%
Securitizations	<ul style="list-style-type: none"> • 20% to 1,250% using SSFA or gross-up approach or simply apply 1,250% • 1,250% on credit-enhancing interest-only strips (CEIOs) 	<ul style="list-style-type: none"> • SSFA replaced with materially similar SEC-SA • Gross-up approach removed • 100% for senior tranches of non-performing loan (NPL) securitizations • 100% floor on NPL securitizations and resecuritizations • 15% floor using SEC-SA • CEIOs deducted from CET1 capital
Commitments	<ul style="list-style-type: none"> • 0% credit conversion factor (CCF) for unconditionally cancelable commitments • 20% CCF for conditionally cancelable commitments with original maturity less than one year. 	<ul style="list-style-type: none"> • 10% CCF for unconditionally cancelable commitments • 40% CCF for conditionally cancelable commitments regardless of maturity • Revised definition of commitment to clarify the types of off-balance sheet

Category	Current Rule (GA Rule)	ERBA Proposal
	<ul style="list-style-type: none"> 50% CCF for conditionally cancelable commitments with original maturity one year or greater. 	<p>exposures that would be subject to risk-based capital requirements,</p> <ul style="list-style-type: none"> New exposure methodology for commitments without pre-set limits.
Derivatives	<ul style="list-style-type: none"> SA-CCR¹² 	<ul style="list-style-type: none"> SA-CCR required Introduces recognition of cross product netting of non-cleared repo-style transactions and derivative transactions Introduces netting of collateralized-to-market (CTM) and settled-to-market client (STM) facing transactions Other technical revisions
Collateralized transactions	<ul style="list-style-type: none"> Option to use the simple approach or collateral haircut approach 	<ul style="list-style-type: none"> New collateral haircut approach facilitates diversification and netting Standard volatility haircuts recalibrated for certain categories (e.g. separate GSE haircut category, a wider bucket for all non-sovereign non-securitization investment grade instruments) Simple approach permits recognition of transactions subject to bankruptcy stay
Other Credit Risk mitigation techniques	<ul style="list-style-type: none"> Credit derivatives: Banks can buy “eligible” credit derivative and substitute the risk weight of the hedged exposure for the risk weight of the seller of the credit derivative. 40% haircut if credit derivative does not include a restructuring of the reference exposure as a credit event. 	<ul style="list-style-type: none"> Credit derivatives: 40% haircut can be eliminated on certain hedged exposures New eligible prepaid credit protection arrangement can be recognized an eligible credit mitigant.

¹² Under the current capital rule, Category III, IV and smaller banking organizations have the ability to use the current exposure method for their derivative exposures. Under the proposal banking organizations that opt into ERBA would be required to use SA-CCR.