

MEMORANDUM

TO: FDIC Board of Directors

FROM: Ryan Billingsley
Director, Division of Risk Management Supervision

DATE: March 19, 2026

SUBJECT: Regulatory Capital Rule: Regulatory Capital and Standardized Approach for Risk-weighted Assets

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 (standardized approach 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) to revise certain elements of the calculation of risk-weighted assets under the standardized approach and make certain adjustments to the definition of regulatory capital.

The standardized approach proposal would improve the regulatory capital framework by retaining its simplicity while improving its risk sensitivity. Specifically, the standardized approach proposal would reduce the risk weights applicable to corporate exposures and certain other assets. The standardized approach proposal would also introduce a broader range of risk weights for residential mortgage exposures, based on more granular risk factors than in the current capital rule. The standardized approach proposal would make targeted adjustments to the existing methodologies for determining exposure amounts for counterparty credit risk and risk-

Concur:

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General Counsel

weighted asset amounts for securitizations, as well as for recognizing the benefits of credit risk mitigants. The standardized approach proposal would remove the threshold-based deduction for mortgage servicing assets for all banking organizations subject to the regulatory capital rule and would require Category III and IV banking organizations to recognize most elements of accumulated other comprehensive income in their regulatory capital.

RECOMMENDATION:

Staff presents to the FDIC Board for approval the attached standardized approach 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 current standardized approach is the risk-based capital framework used by most banking organizations that report risk-weighted assets. Analysis undertaken by staff in connection with the expanded risk-based proposal¹ included evaluating the appropriateness of the risk weights applicable to exposures at the business-line level. That analysis informs the changes in this standardized approach proposal, including revisions to risk weights that are particularly material to lending activities.

II. Revisions to the Definition of Capital

The standardized approach proposal would broadly maintain the current definition of capital for banking organizations that would be subject to the standardized approach proposal

¹ Concurrently, staff is presenting a request for approval from the FDIC Board to publish a separate notice of proposed rulemaking that would require Category I and II banking organizations to use a new framework to calculate risk-weighted assets, called the expanded risk-based approach, and would allow other banking organizations to elect to use the expanded risk-based approach (expanded risk-based proposal).

(covered banking organizations) with two modifications.² First, consistent with the expanded risk-based proposal, covered banking organizations would no longer be required to deduct any amount of mortgage servicing assets (MSAs) 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. Second, under the standardized approach proposal, Category III and IV banking organizations would be required to include all accumulated other comprehensive income (AOCI) components in their regulatory capital, except for gains and losses on certain cash-flow hedges. The proposal includes a five-year transition period for the AOCI recognition requirement.³

III. Calculation of risk-weighted assets under the standardized approach

a. General risk weight treatment

To improve the risk sensitivity of the standardized approach, the standardized approach proposal would make targeted revisions to the general risk weight treatment of certain exposure categories that are particularly material to bank lending activities.

Consistent with the expanded risk-based proposal, the standardized approach proposal would introduce a loan-to-value (LTV)-based approach for assigning risk weights to certain residential mortgage exposures, ranging from 25 to 75 percent. The proposed LTV-based approach would further differentiate and provide relatively higher risk weights based on whether a residential mortgage is dependent on cash flows generated by the real estate securing the

² In addition, the standardized approach proposal would require a covered banking organization to deduct from common equity tier 1 capital any portion of a credit-enhancing interest only strip that does not constitute an after-tax-gain-on sale.

³ This transition period would mirror the transition period under the expanded risk-based proposal provided to banking organizations that elect to use the expanded risk-based approach and that do not currently recognize AOCI in their regulatory capital.

extension of credit, ranging from 35 to 110 percent. Use of an LTV-based approach would recognize the reduction in risk and allow for the assignment of a lower risk weight, due to amortization, as the borrower pays down principal and builds equity. Residential mortgage exposures that do not qualify for the LTV-based approach, as well as certain junior lien residential mortgage exposures, would continue to receive a 100 percent risk weight.

Under the standardized approach proposal, the risk weight applicable to corporate exposures would be reduced from 100 percent to 95 percent, and the risk weight applicable to certain other assets would be reduced from 100 percent to 90 percent.⁴ The standardized approach proposal would maintain the existing definitions of corporate exposures and other assets.

Consistent with the general risk weights in the current standardized approach and in contrast with the proposed expanded risk-based approach, there is not a separate operational risk-based capital requirement. Therefore, the proposed risk weights under the standardized approach proposal would not account exclusively for credit risk and would incorporate an add-on for operational risk.

b. Off-balance sheet exposures

Consistent with the expanded risk-based proposal, the standardized approach proposal would better capture the risk of certain off-balance sheet exposures relative to the current standardized approach by: (1) revising the definition of commitment to clarify the types of off-balance sheet exposures that would be subject to risk-based capital requirements; (2) modifying the conversion factors applicable to certain credit and equity commitments; and (3) introducing

⁴ The proposed risk weights are informed by data collected by the Federal Reserve Board in 2023 from Category III and IV banking organizations based on the specific requirements contained in a July 27, 2023 capital proposal.

an exposure methodology for commitments without pre-set limits that uses the highest drawn amount over the previous 24 months as an indicator of the amount of credit a covered banking organization is likely to extend to an obligor in the future. This exposure methodology would generally align with that under the expanded risk-based proposal and is most pertinent for Category III banking organizations, which apply a 10 percent credit conversion factor to unconditionally cancelable commitments for purposes of the supplementary leverage ratio. The standardized approach proposal would retain the zero percent credit conversion factor for unconditionally cancellable commitments for purposes of risk-based capital requirements.

c. Derivative contracts

Under the standardized approach proposal and consistent with the current capital rule, a covered banking organization would use the current exposure methodology to calculate the exposure amount for derivative contracts, unless it elects to use the standardized approach for counterparty credit risk (SA-CCR).⁵ To promote consistency, a covered banking organization that elects to use SA-CCR would apply the same revised SA-CCR framework that is proposed in the expanded risk-based proposal regardless of whether the banking organization is subject to the standardized approach or the expanded risk-based approach.⁶

d. Credit risk mitigation and securitization

The standardized approach proposal would largely incorporate the treatments for collateralized transactions, guarantees, and credit derivatives from the current capital rule with enhancements to increase risk sensitivity. Consistent with the expanded risk-based proposal, the standardized approach proposal also introduces eligible prepaid credit protection arrangements as

⁵ See 12 CFR 324.34.

⁶ See expanded risk-based proposal section IV.A.4.

a credit risk mitigant available to all exposure types. Similarly, the standardized approach proposal would make modifications to the securitization framework in the current standardized approach in line with those proposed in the expanded risk-based proposal.

IV. Indexing of Thresholds

Consistent with the expanded risk-based proposal, under the standardized approach proposal certain dollar-based thresholds in the capital rule 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.

CONCLUSION

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

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