An Overview of the Modernization of the US Regulatory Capital Framework

Recalibrating the Standardized Approach

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On March 19, 2026, the U.S. banking agencies (agencies) issued three interrelated proposals designed to modernize the U.S. regulatory capital framework.

The first would revise the risk-based capital requirements for the largest, most internationally active banking organizations through an expanded risk-based approach (ERBA), which is designed to implement the Basel III international accord. The ERBA proposal is issued as a replacement for the previous Basel III Endgame proposal.

The second would modify the U.S. global systematically important bank (G-SIB) surcharge framework.

The third would revise the U.S. standardized approach (standardized approach) to risk-based capital, which is the primary risk-based capital framework for banking organizations that report risk-weighted assets in the United States.

I. Scope of Application

Under the proposals, Category I and II banking organizations would no longer apply the standardized approach; instead, they would be required to calculate their risk-based capital requirements exclusively under the ERBA, rather than both the standardized and advanced approaches. Smaller banking organizations, those in Category III and below, would use the revised standardized approach with the option to elect the ERBA.

In addition, banking organizations with significant trading activities, even those that are not Category I or II banking organizations, would be required to apply the market risk framework under the ERBA in addition to applying the revised standardized approach. Significant trading activity is defined as having:

1. More than $5 billion in trading activity or
2. Trading activity equal to or higher than 10% of the banking organization's total assets.

Further, the revised market risk framework includes capturing the risks associated with credit valuation adjustment risk for derivative exposures. The credit value adjustment (CVA) framework would similarly apply to all banking organizations that have significant trading activity and have at least $1 trillion in notional derivative exposure.

This article provides a high-level summary of the proposed revisions to the standardized approach, including changes to the definition of regulatory capital, recalibration of risk weights for key exposure categories, modifications to off-balance sheet treatment, derivative contract methodology, credit risk mitigation, securitization, and the indexing of regulatory thresholds.

II. Objectives & Design Principles

The agencies stated that the objective of the standardized approach proposal is to improve risk sensitivity by better aligning risk-based capital requirements with the underlying risk characteristics of banking exposures, without sacrificing operational simplicity.

The standardized approach proposal was developed from a broader reassessment of the capital framework following more than a decade of post-financial crisis reforms. During this time, the agencies' analysis shows that large banks have more than doubled their capital levels, increasing capital by more than $1 trillion. While this has materially strengthened bank resilience, the agencies' analysis also concluded that certain elements of the framework produced unintended consequences. Specifically, the agencies identified requirements that may have resulted in excessive capital obligations for some traditional banking activities, such as mortgage origination and servicing.

The agencies determined that excessive capital obligations may have contributed to the migration of those activities from the regulated banking system to nonbank financial institutions. The agencies also found that other elements added complexity and burden without commensurate benefits.

Against this backdrop, the standardized approach proposal is designed to:

- Enhance risk sensitivity through more granular risk differentiation, particularly for residential mortgage exposures;
- Recalibrate risk weights for key lending categories, including corporate and other general asset exposures;
- Modernize exposure measurement methodologies for off-balance sheet commitments and derivative contracts;
- Align targeted elements with the broader reforms in the expanded risk-based framework to promote consistency; and
- Preserve the simplicity and operational usability that define characteristics of the standardized approach.

Importantly, the proposal is designed to refine but not fundamentally replace the standardized approach. Rather, the proposal refines the calibration and methodology, focusing on areas most material to bank balance sheets. Consistent with the existing standardized approach design, there would be no separate operational risk capital requirement; rather, operational risk has been embedded within the applicable risk weights.

III. Revisions to the Definition of Regulatory Capital

The standardized approach proposal makes two significant modifications to the current definition of regulatory capital:

The elimination of the Mortgage Servicing Asset (MSA) deduction.

The requirement for Category III and IV banking organizations to include elements of adjusted other comprehensive income (AOCI) when calculating Common Equity Tier 1 (CET1) capital.

A. Elimination of the Mortgage Servicing Asset Deduction

Under the current capital framework, MSAs are subject to threshold-based deductions from CET1 capital. The proposal would eliminate this deduction entirely for all banking organizations covered by the proposals, including those operating under the ERBA.

All MSAs would be subject to a 250% risk weight, consistent with the treatment currently applied to MSAs that do not exceed existing deduction thresholds. The agencies are also soliciting comments on whether a different risk weight would be more appropriate for MSAs. This change is intended to promote bank participation in mortgage origination and servicing businesses, while still recognizing the uncertainty and difficulty banking organizations face in realizing value from MSAs across economic cycles.

B. Recognition of Accumulated Other Comprehensive Income

The proposal would require Category III and IV banking organizations to include most elements of AOCI in regulatory capital, consistent with the treatment already applicable to Category I and II institutions.

AOCI primarily reflects unrealized gains and losses on certain assets and liabilities, such as available-for-sale securities, that have not yet been recognized in net income but are nonetheless included in equity under generally accepted accounting principles. However, gains and losses on certain cash-flow hedges would be excluded from the recognition requirement. The proposal includes a five-year transition period to allow Category III and IV banking organizations to phase in this requirement to avoid a large, immediate increase in capital requirements. Comments are invited on the appropriate scope of mandatory AOCI recognition.

IV. Recalibration of Risk Weights for Key Exposure Categories

An important feature of the proposal is the recalibration of risk weights for exposures that are most material to bank lending activities. The proposed revisions are informed by Category III and IV banking organization data collected by the Federal Reserve Board in 2023. Further, while the proposed risk weights are generally consistent with the ERBA risk weights, the standardized approach applies slightly higher risk weights. The risk weight differences reflect the inclusion of an add-on for operational risk. The following table provides an overview of key risk weight changes under the revised standardized approach.

Headline Risk Weight Changes Under the Revised Standardized Approach

Exposure	Current Standardized Approach	Revised Standardized Approach	
Residential mortgage exposures that are not dependent on the cash flows of the real estate	Prudently underwritten first lien 1-4 family mortgage exposures 50%	LTV ≤ 50%	25%
		50% < LTV ≤ 60%	30%
		60% < LTV ≤80%	35%
	All other residential mortgage exposures 100%	80% < LTV ≤ 90%	45%
		90% < LTV ≤ 100%	55%
		LTV ≥ 100%	75%
Residential mortgage exposures that are dependent on the cash flows of the real estate	Prudently underwritten first lien 1-4 family mortgage exposures 50%	LTV ≤ 50%	35%
		50% < LTV ≤ 60%	40%
		60% < LTV ≤80%	50%
	All other residential mortgage exposures 100%	80% < LTV ≤ 90%	65%
		90% < LTV ≤ 100%	80%
		LTV ≥ 100%	110%
Corporate exposures	100%	95%	
Non-construction commercial real estate loans	100%	90%	
Retail loans	100%	90%	
Other assets	100%	90%	
Risk-weight floor for securitization exposures that are not resecuritizations	20%	15%	

A. Residential Mortgage Exposures: LTV-Based Risk Weights

The most significant change in the proposal is the introduction of a loan-to-value (LTV)-based approach for assigning risk weights to most residential mortgage exposures. The LTV-based approach replaces the current methodology, which applies a broadly uniform 50% risk weight to qualifying residential mortgages.

Under the proposed LTV-based approach:

- Risk weights for qualifying residential mortgage exposures would range from 25% to 75% based on LTV ratios, reflecting the principle that lower LTV ratios correspond to lower credit risk due to a greater amount of borrower equity.
- Where repayment of the mortgage is dependent on cash flows generated by the real estate securing the credit, *e.g.,* rental properties, risk weights would range from 35% to 110% to reflect higher credit risk due to the requirement for continuous occupancy.
- 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% risk weight. For example, residential mortgage exposures that do not meet the requirements of the agencies' Real Estate Lending Standards generally may not qualify for the LTV-based approach.

Another key feature of the LTV-based framework is that it allows for the recognition of reduced risk as the loan amortizes over time. As a borrower pays loan principal and builds equity, the applicable LTV ratio declines as well as potentially resulting in a lower risk weight. This dynamic treatment more accurately captures the evolution of credit risk over the life of a loan.

B. Corporate Exposures

The proposal maintains the existing definition of corporate exposures under the standardized approach. However, the risk weight would be reduced applicable to corporate exposures from 100% to 95%. This moderate adjustment applies broadly to corporate lending and reflects agency analysis suggesting that the current 100% calibration may overstate risk for corporate exposures as a category.

C. Retail & Other Assets

For assets not specifically assigned to a different risk weight category or deducted from regulatory capital, the proposal would reduce the applicable risk weight from 100% to 90%. This change affects a broad range of retail and other residual asset categories. It represents a general recalibration of baseline risk weights, consistent with the agencies' assessment that current weights are modestly over-calibrated for general asset categories.

D. Operational Risk & the Risk Weight Structure

Unlike the ERBA, the standardized approach does not include a separate operational risk charge. Rather, consistent with the operationally simplistic design of the current standardized approach, operational risk would continue to be implicitly embedded within applicable risk weights. Therefore, the proposed risk weights under the standardized approach do not account exclusively for credit risk but incorporate an add-on for operational risk.

V. Treatment of Off-Balance Sheet Exposures

The proposal introduces several enhancements to improve the risk capture of off-balance sheet exposures, consistent with the treatment proposed in the ERBA.

A. Revised Definition of Commitments

The definition of commitments would be revised to more clearly identify which off-balance sheet exposures are subject to risk-based capital requirements. This clarification is intended to reduce ambiguity in the application of the framework and improve consistency across institutions.

B. Modified Credit Conversion Factors

The proposal modifies the conversion factors applicable to certain credit and equity commitments, improving the alignment of capital requirements with the underlying exposure risk of those instruments. For example, currently, commitments that are not unconditionally cancelable receive a 20% credit conversion factor if their original maturity is one year or less; and credit commitments with an original maturity of more than one year receive a 50% credit conversion factor. The proposal would subject all commitments that are not unconditionally cancelable to a credit conversion factor of 40%, regardless of the maturity of the facility.

C. New Methodology for Commitments Without Pre-Set Limits

For commitments without fixed limits, a new exposure methodology is proposed, under which the exposure amount is based on the highest drawn amount over the previous 24 months. The exposure amount serves as an indicator of the amount of credit a banking organization is likely to extend to an obligor in the future. Designed to better approximate the future exposure of such commitments and generally align with the methodology proposed in the ERBA, this change is most pertinent for Category III banking organizations.

D. Unconditionally Cancelable Commitments

The proposal retains the 0% credit conversion factor for unconditionally cancelable commitments for purposes of risk-based capital requirements. This treatment is unchanged from the current standardized approach, preserving the existing capital treatment for this category of off-balance sheet exposure. For Category III banks, the treatment of unconditionally cancelable commitments under the supplementary leverage ratio would not change.

VI. Derivatives & Counterparty Credit Risk

Under the proposal, banking organizations could continue to use the current exposure methodology (CEM) to calculate the exposure amount for derivative contracts, unless they elect to use the standardized approach for counterparty credit risk (SA-CCR). To promote consistency across capital frameworks, a banking organization that elects to use SA-CCR would apply the same revised SA-CCR methodology proposed in the ERBA regardless of whether the banking organization is otherwise subject to the standardized approach or the ERBA.

VII. Credit Risk Mitigation & Securitization

A. Credit Risk Mitigation Enhancements

The proposal largely incorporates the existing capital treatment for collateralized transactions, guarantees, and credit derivatives, while introducing certain enhancements to increase risk sensitivity. Consistent with the ERBA, the revised standardized approach introduces eligible prepaid credit protection arrangements as a new category of recognized credit risk mitigant. This addition broadens the range of risk mitigant instruments that can be used to reduce regulatory capital requirements.

B. Securitization Framework Modifications

The proposal would also modify the securitization framework in the current standardized approach in a manner consistent with changes proposed in the ERBA. Under the proposal, a banking organization would determine the capital requirements for most securitization exposures under the securitization standardized approach (SEC-SA), which is substantively similar to the simplified supervisory formula approach (SSFA) in the current capital rule. However, the SEC-SA includes certain modifications that are intended to improve risk sensitivity and create consistency in the securitization capital treatment across the two frameworks. Importantly, the proposal would reduce the risk weight floor for a securitization exposure (that is not a resecuritization) from 20% to 15%.

VIII. Indexing of Regulatory Thresholds

The proposal introduces a mechanism to index certain thresholds in the standardized approach to inflation. The indexing methodology would be based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) published by the U.S. Bureau of Labor Statistics. Indexing addresses the gradual erosion of threshold significance caused by inflation. By automatically adjusting thresholds over time, the intended scope and application of key provisions is preserved in real economic terms—without requiring periodic legislative or regulatory intervention.

IX. Estimated Impact on Capital Requirements

The standardized approach proposal is projected to reduce aggregate CET1 capital requirements meaningfully across the banking organizations.

- For Category III and IV firms, agency staff estimate a net reduction of 3.0% in aggregate CET1 capital requirements. This reflects a 6.1% decrease attributable to revised risk-weighted asset calculations, partially offset by a 3.1% increase resulting from the AOCI recognition requirement.
- For smaller banking organizations (those with less than $100 billion in total assets), agency staff estimate that the revisions would reduce CET1 capital requirements by 7.8%. These firms would not be subject to the AOCI recognition requirement.

When taking into consideration previous proposed stress testing changes, agency staff estimates that the cumulative reduction in CET1 capital requirements for Category III and IV firms is projected to be 5.2%. The agencies note that, given the robust capital positions currently maintained by U.S. banks, this moderate reduction in requirements is not expected to materially diminish the resilience of the banking system.

X. Estimated Burden

In a simultaneous release, the agencies published their estimate of the regulatory burden associated with the revised standardized approach. The Federal Reserve estimated that the average Fed-supervised bank or bank holding company would spend 449 hours (148 hours of recordkeeping and 301 hours for disclosures) for initial setup of the standardized approach and would spend 516 hours (59 hours record-keeping and 457 hours for disclosure) for the ongoing compliance with the revised standardized approach. The burden estimates of the other agencies varied little from this estimate.

Conclusion

The standardized approach proposal represents a relatively targeted but overall meaningful recalibration of the risk-based capital framework for the majority of banking organizations in the United States. The agencies propose to achieve this calibration by introducing LTV-based residential mortgage risk weights, eliminating the MSA capital deduction in favor of a uniform 250% risk weight, modestly reducing corporate and general asset risk weights, and extending AOCI recognition to Category III and IV firms.

At the same time, the agencies are careful to preserve the defining characteristics of the standardized approach: simplicity, transparency, and broad applicability. The agencies have preserved these characteristics by carefully avoiding introducing model-based complexity or a standalone operational risk requirement and instead, embedding regulatory enhancements into the existing structural framework. In addition, the agencies have worked to create harmonization with key elements of the ERBA and to promote cross-framework consistency without imposing the full complexity of ERBA framework on institutions for which it was not designed.

The public comment period on all three proposals closes on June 18, 2026.

How Forvis Mazars Can Help

Navigating these regulatory changes requires more than a high-level read of the proposals, it requires deep understanding of exactly what these proposals mean for your organization. At Forvis Mazars, we work alongside your finance, treasury, and risk functions to help translate regulatory complexity into clear, actionable next steps. Whether you are assessing capital impacts, preparing for implementation, or looking to engage at any point during the process, we have the skills and experience in financial services that you can trust, combining a focus on **Unmatched Client Experience®** with the resources of a global firm. Serving you is our passion and privilege.

Our support spans the full range of what these proposals demand, including:

- Capital impact modeling across your specific balance sheet, business mix, and regulatory category
- Gap assessments benchmarking your current RWA methodology, governance, and controls against the incoming requirements
- Data requirements review and mapping to ensure your data infrastructure can support the new standardized approach
- Comment letter development to help your institution engage constructively during the 90-day comment period
- End-to-end implementation support spanning governance, model validation, stress testing, and regulatory reporting
- G-SIB surcharge sensitivity analysis across systemic indicator categories and strategic decision making.

To discuss how these developments apply to your institution, please reach out to a professional at Forvis Mazars.

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