DIVERGENT GLOBAL IMPLEMENTATION OF BASEL 3

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Follow through the finish line of Basel III implementation

The Basel III standards to finalise the post-crisis reforms have entered their final phase of global implementation. International supervisors and regulators took ten years after the start of the Global Financial Crisis to reach compromise on those rules that intend to make the financial system less leveraged, more liquid and better supervised. Since then, 8 more years have passed and this new set of rules apply to EU banks from 1 January 2025.

The EBA is supporting this complete implementation in the EU through the delivery of its assigned mandates. There is a clear and transparent pathway of implementation ahead, but we need to ensure globally that differences in implementation, in terms of content and timing, do not threaten the international compromise reached.

Robustness of EU/EEA banks

In the recent environment of geopolitical tensions, the EU/EEA banks have performed well. Partly thanks to regulatory and supervisory efforts over time, and thanks also to enhanced risk management by banks, EU banks' capital positions and capital ratios have increased significantly. EU/EEA banks have an average CET1 ratio of 16,1%, almost doubled since 2008, and the ratio of equity to total assets (a proxy of the leverage ratio) has increased by 50% during the same period. RoE levels are at 10.5% in Q4 2024 and profitability remained stable on a yearly basis.

The recent EBA EU-wide stress test results show that the EU Banking sector will remain resilient in the event of a significant adverse macroeconomic scenario[1]. This renewed strength of EU banks is a key element for their competitiveness.

Global Basel III implementation

According to the Basel Committee on Banking Supervision , most member jurisdictions have implemented the final elements of Basel III. On the other hand, some jurisdictions still lag in starting the implementation process. Divergences also persist regarding exemptions and adjustments, level of application as well as gradual implementation and transitional arrangements.

The divergent implementation at global level may challenge the operations of internationally active banks. This fragmentation adds on complexity for operations and compliance. The challenge applies to internationally active banks no matter what of the location of their headquarters. The end point of Basel III must indeed be a level playing field of consistent and faithful implementation by all, particularly in those business segments were preserving international competition is paramount.

Ultimately, the objective of regulators and supervisors must remain to uphold high standards for all which protect the robustness and resilience of the banking sector.

Strengthening multilateral cooperation

Past crises illustrated that timely, coordinated intervention is both more effective and less costly than fragmented, reactive approaches. Strong international relationships among supervisors and regulators are a strong safety net in times of geopolitical tensions and policy uncertainties which remain significant tiggers to economic and financial stability, including a slowdown in economic growth.

Re-confirming the commitment to multilateral cooperation on banking regulation is crucial to boost confidence in uncertain times. The EU can contribute by playing an active role at the BCBS and G20 financial stability fora to promote dialogue on the benefits of supervisory cooperation and convergence.

> **Multilateral cooperation on banking regulation is key to boost confidence in uncertain times.**

Likewise, the EU may also preserve the international consensus by continuing to implement Basel III faithfully and to maintain its status as standard setter in bank regulation. At the same time, the EU needs to support openness and cross-border banking activities within its own single market to ensure that banks can play their vital role in financing businesses and citizens across the European economy.

1. *More information on EBA stress test, including results are available here. (https://www.eba.europa.eu/publications-and-media/press-releases/eba-launches-its-2025-eu-wide-stress-test)*

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EU Banks and Basel III: Resilience achieved, competitiveness at risk

The 2007-2008 global financial crises highlighted the shortcomings of the banking supervision frameworks. In response, the Basel Committee developed the Basel III standards, the purpose of which was to increase the shock resistance of the banks. The new expectations appeared in relation to both capital and liquidity requirements.

The past few years have proven that the EU banking sector has stood the test of time. In recent years there were significant negative economic shock events, including the COVID-19 pandemic, high inflation and interest rate hikes, and the Russian Ukrainian war. Despite these events, the EU banking system remained stable, capital and liquidity ratios remained adequate in the sector.

Although the main goal of the Basel III framework was to ensure financial stability globally, the implementation practices may differ in jurisdictions significantly due to different economic policies, market structures and supervisory philosophies. The Basel III monitoring reports of the Basel committee provide a comprehensive summary analysis with regards to the implementation all around the world. One of the main lessons of the reports is that members of the EU banking system have in general higher capital and liquidity buffers compared to other large economic regions (e.g.: US). In addition to the Basel monitoring reports other publications, articles reach to a similar conclusion.

The EU implemented the Basel III standards through the CRD and CRR framework, but at the same time, other economic regions handled the implementation more flexibly. For example, in the United States the introduction of several relevant topics (e.g.: output floor, FRTB) has been postponed, and there is also a greater emphasis on the principle of proportionality, based on which different requirements are formulated for large and small banks.

Beyond the time lag of the implementation, it is also worth to mention the difference in methodology, especially in buffer requirements. The buffer requirements in the EU are multi-layered, which include the Capital Conservation buffer, Countercyclical buffer, Systemic Risk buffer and institution-specific O-SII or G-SII buffer. These are mostly constant (but regularly reviewed) percentages in proportion to the Pillar 1 RWA determined by the competent supervisory authority. In contrast, in the US, there is a greater emphasis on the Stress Capital Buffer ("SCB"), which is determined based on the annual supervisory stress tests, replaces several buffer layers and offers more flexibility due to its unique definition.

Creating a competitive EU banking sector is an essential strategic issue.

In addition to the time lag and methodological differences, there may be further differences if other economies do not apply the expectations uniformly for all the banks, contrary to the general implementation of the EU.

Globally different implementation of the framework could weaken the credibility and comparability of bank's capital indicators, which causes uncertainty for EU banks in the future to develop their business strategy. The broader risk is that these differences may cause structural disadvantages in the financing of the real economy. In terms of efficient operation, European banks start at a disadvantage compared to the banking system of larger economies due to fragmented submarkets. To address these issues, there is always a room for deeper integration of banking supervisors within the EU and a push for greater harmonization of Basel implementation at the BCBS level.

Creating a competitive EU banking sector is an essential strategic issue specially in recent times, when Europe is currently facing economic challenges such as the volatile energy prices, low economic grow, geopolitical vulnerability and demographic decline. It is important to note, that the EU is ahead of the curve in terms of implementation of the final phase of Basel III, because the new legislation (CRR 3) is in effect since the beginning of 2025, but at the same time, the regulation still needs to be supplemented in several technical issues. Several additional regulatory technical standards, guidelines and other lower-level recommendations are expected in the future, and the detailed regulation may still greatly influence banking operation. This could be an opportunity where the EU decision makers can still think about the right balance between ensuring financial stability and increasing global competitiveness. It is also essential to continuously monitor the implementation processes of the largest economies and in cases where the deviations put EU banks at a significant competitive disadvantage, a limited, temporary adjustment of the requirements should be considered.

In a rapidly changing global environment marked by economic and social challenges, creating the right balance between resilience and competitiveness is one of the keys for future strength of the EU banking sector.

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Basel 3 in a new world: why the EU must lead with competitiveness and conviction

More than a decade after the finalization of the Basel III agreement, a new context of geopolitical tensions, economic fragmentation, and rising global competition has exposed significant divergences in the pace and substance of its adoption across jurisdictions. These disparities not only create a risk of unlevelled playing field across jurisdictions, but also raise challenges to the role of international standard setters.

A key area where the risk of an unlevel playing field becomes most pronounced is trading book activity. Financial markets operations are international in nature — services can be offered cross-border with relative ease, and capital flows quickly to the most efficient location. Recognising this, the European Commission (EC) is carefully tracking international implementation progress and has prudently decided to delay the implementation of the Fundamental Review of the Trading Book (FRTB) to the beginning of 2027 to monitor US developments. Most recently, the PRA has also announced a proposal to further delay the FRTB-IMA implementation and adjust the market risk framework. This additional time should now be used wisely to refine certain technical aspects so that European banks are not placed at a structural disadvantage in the global market.

Besides reacting to what other jurisdictions do when it comes to Basel III, the EU should in parallel focus on domestic actions to strengthen local competitiveness, having in mind that over the last fifteen years we have observed a major relative strengthening of, in particular, non-European wholesale banks. While keeping regulation aligned with Basel III principles, sensible regulatory simplification should also be pursued.

The unprecedented financing demands arising from new security concerns, the green transition, and digital transformation cry out for simplified bank-capital requirements and a new approach to banking oversight. Risk must be understood and managed but can and should not be completely avoided.

The Draghi Report called on the EU to assess whether current prudential regulation is adequate to have a strong and international competitive banking system in the EU. Against this background, we welcome the announced Commission report on the competitiveness of the EU banking sector. A better calibration of the prudential framework to the current risk and competitive environment is very much needed. We believe that a thorough quantitative impact study, conducted in close cooperation with key stakeholders, can support public policy debate and provide a sound basis for policy decisions.

By endorsing a risk-sensitive and growth friendly approach, the EU can foster a new paradigm.

For instance, due consideration should be paid on whether the current capital requirements for equity, project and infrastructure finance exposures impact the banks' ability to support sectors necessary for an accelerated EU integration and competitiveness.

Furthermore, in the context of simplification, regard should also be paid to thinking about the current supervisory culture. A supervisory approach that is skewed towards gold-plating and non-materiality also affects the overall competitiveness of the financial sector whose agility is key for the competitiveness of the entire economy.

Now that European regulation and supervision have reached maturity, withstanding the past years' macroeconomic and financial shocks robustly, the priority should be developing a simpler and more responsive landscape, including reviewing (too) extensive reporting requirements aiming for less but more meaningful data requirements. This would yield benefits for all, without sacrificing in any way the high standards of resilience required for financial stability.

These reforms must not take place in isolation. In an increasingly multipolar world, reaffirming trust in global regulatory cooperation and common minimum standards is an imperative.

The EU has the opportunity to shape the future of global banking regulation by engaging constructively with Basel III. By championing a balanced, risk-sensitive and growth friendly approach, the EU can foster a more balanced regulatory paradigm — one that supports growth without compromising safety. By taking forward these insights, and through constructive engagement with its global partners, the EU can strengthen confidence in multilateralism in financial regulation.

The Draghi, Letta and Noyer reports have laid the ground by stating that financial markets and banks are part of the much-needed European effort on competitiveness. Now is the time to deep-dive into the banking competitiveness chapter, in the EU and globally. At Standard Chartered, we stand ready to contribute to this debate leveraging our unique global perspective.

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Basel III at a crossroads: global divergence and prudential legitimacy

Prudential Legitimacy

Since the 2008 financial crisis, the Basel III framework has represented a global commitment to strengthening the resilience of the banking system. Established by the Basel Committee on Banking Supervision (BCBS), its aims were to restore confidence in the global financial system, reduce systemic vulnerabilities, and promote consistent regulatory standards across jurisdictions.

15 years later, while its core principles remain widely supported, its implementation has become increasingly fragmented.

Fragmentation Amid Global Pressures

Against a backdrop of economic uncertainty and geopolitical pressures, diverging Basel III implementations are emerging. In Canada, uncertainty over U.S. trade policy has dampened exports and investments, prompting regulators to delay the introduction of stricter Basel III capital requirements in order to protect domestic banks from potential competitive disadvantages.

Similar pressures in the European Union (EU) have led to regulatory flexibility, as the EU has postponed the implementation of the Fundamental Review of the Trading Book, extended Credit Valuation Adjustment (CVA) exemptions, and delayed the introduction of the output floor. While the United Kingdom is committed to Basel III, it has scheduled implementation for 2026, incorporating targeted adjustments such as capping the internal loss multiplier at 1 to limit the impact of historical losses and gradually phasing out CVA exemptions.

Although some jurisdictions apply local exceptions, such as zero risk weights for domestic sovereign exposures, to support public financing and financial stability, Asia remains broadly aligned with Basel III. Meanwhile, the United States maintains higher capital standards, including leverage ratios of up to 6%, rigorous stress testing, and increased surcharges for global systemically important banks (G-SIBs). Its market-based financial system, in which capital markets play a dominant role in corporate financing, differs from the bank-centric models of Europe and Canada. These regional variations reflect broader challenges: slowing growth, rising protectionism and regulatory complexity that risk undermining the coherence of global banking rules.

Bank Failures and the Case for Consistency

The collapse of Silicon Valley Bank (SVB), First Republic and Credit Suisse in 2023 was one of the most significant disruptions to the banking sector since the global financial crisis. These failures exposed vulnerabilities in supervisory oversight and resolution planning, particularly with regard to non-G-SIBs such as SVB, and raised systemic concerns.

> A globally coordinated adaptive regulatory approach keeps institutions resilient and competitive.

According to the Financial Stability Board (FSB), the events in question highlighted gaps in risk governance and the need for more robust early intervention tools. The BCBS acknowledged that, while Basel III cannot prevent all failures, its capital and liquidity buffers helped to contain contagion and preserve financial intermediation. The IMF, the BCBS and the FSB have all emphasized the urgency of fully implementing Basel III, particularly with regard to managing interest rate risk, depositor concentration and the treatment of unrealized losses. The collapse of SVB, driven by unhedged interest rate exposures and concentrated uninsured deposits, rapidly escalated into a severe liquidity crisis. While different in nature, Credit Suisse's failure reinforced the importance of credible resolution plans and stronger international coordination.

Balancing Resilience and Competitiveness

Achieving the right balance between financial resilience and competitiveness is a key regulatory challenge. Resilience requires robust capital and liquidity buffers, effective stress testing, and robust resolution frameworks. However, overly stringent rules can restrict the supply of credit and hinder European banks' ability to support economic growth.

Basel III compliance is increasingly viewed by institutional investors as a key indicator of financial resilience and creditworthiness. Desjardins Group's robust capital and liquidity position, as evidenced by a CET1 ratio of 22.4% and an LCR of 172% in Q1 of 2025, underscores its dedication to responsible risk management. This financial strength, the highest in Canada, reinforces its credibility with global investors and ensures continued access to international capital on favourable terms.

The IMF and BCBS emphasize that financial resilience must evolve in order to address the emerging vulnerabilities that have been highlighted by the recent failures of banks. Competitiveness depends on regulatory clarity, proportionality, and alignment with global peers, in order to avoid disadvantaging domestic institutions. External factors such as shifts in monetary policy, geopolitical fragmentation and digitalisation further complicate this balance. A risk-sensitive, globally coordinated, adaptive regulatory approach is essential for maintaining the resilience and competitiveness of financial institutions in an fast-changing world.