Divergent global implementation of Basel III

1. Global standards and implementation challenges

The speakers underlined the crucial role of international standards in supporting financial stability, trust and global market access. They examined how fragmented implementation across jurisdictions challenges efforts to achieve a level playing field. The debate focused on the rationale behind Basel III, the importance of consistent application, and the risks arising from divergent implementation paths and opaque regulatory frameworks.

1.1 Context and rationale for Basel III

1.1.1 Basel III: the backbone of global stability

A Central Bank official stressed that Basel III constitutes the backbone of global financial stability and trust in the banking system. In an interconnected environment, fragmented implementation undermines resilience and encourages regulatory arbitrage. Regulators and industry participants share a strong interest in achieving harmonised global application. Only a coordinated global approach can address implementation inconsistencies. There are indications that the United States may soon publish its implementation proposal early 2026, which would serve the interests of global banks, including those operating in the US.

1.1.2 The broader importance of international standards

A Central Bank official noted that international standards are fundamental to maintaining global financial stability. They provide investors with confidence to operate across borders, foster trust among regulators and help create a level playing field. This is particularly relevant for the United Kingdom, which hosts a major international financial centre. The UK remains committed to faithfully implementing all international standards, including Basel III. Alignment with global standards is firmly embedded in the Prudential Regulation Authority's objectives. The UK intends to implement the package by 1 January 2027, except for the internal models part of the market risk rules which will be implemented one year later on 1 January 2028. The output floor will follow the Basel timeline and be fully phased in by 2030.

1.1.3 Consistency across EU jurisdictions: a key driver of stability and market access

An official emphasised that EU implementation must take account of global developments. While differences exist between Member States, adopting a "one-size-fits-all" approach may at times be necessary to preserve coherence. It is not feasible to tailor the international framework to each national market. Instead, the focus should be on finding common ground globally to protect Europe from financial instability. Given the current volatility and geopolitical uncertainty, international rules remain essential for cross-border banking activity. The EU is working to implement Basel III faithfully, yet disparities between Member States persist. Ideally, consistent implementation will help deepen the integration of the European banking market.

1.2 Implementation challenges in a fragmented landscape

1.2.1 Opaque processes and measurement difficulties

An official observed that, according to Basel Committee data, only eight of twenty jurisdictions have fully implemented the framework. While the US and UK have yet to complete their transposition, the EU performs less favourably in terms of both compliance and quality. Assessing the exact degree of implementation remains complex, making it difficult to identify the necessary adjustments. Moreover, the rapid pace of global regulatory change complicates the evaluation of whether the EU's process is progressing appropriately. Any revision to the US approach will inevitably influence the EU's own implementation.

1.2.2 Divergent implementation will undermine European competitiveness

An industry speaker underlined that global financial institutions require consistent and detailed regulatory requirements. They would gain significant efficiencies if a single regulatory engine, data pool and calculation framework could be used worldwide. The coexistence of multiple local regimes generates discrepancies in capital requirements, operational costs and risk management. Implementing the Fundamental Review of the Trading Book (FRTB) ahead of other jurisdictions, for instance, would place continental European banks at a competitive disadvantage. Over the past decade, these banks have lost market share in key investment banking segments; notably, all five global coordinators of Porsche's 2022 IPO were non-EU institutions. Such outcomes raise concerns regarding European competitiveness and sovereignty. Basel III should therefore ensure a genuine level playing field between EU and non-EU institutions.

1.2.3 Transparency, consistency and comparability foster stability

An industry representative stressed that coherent and coordinated implementation of common standards is essential. The collapses of Silicon Valley Bank and the resolution of Credit Suisse illustrate the risks of partial or inconsistent application of Basel III. These episodes underline the urgent need for stronger cross-border coordination and resolution planning. Rather than allowing fragmentation, public authorities should reinforce transparency, consistency and predictability in the regulatory framework. Such an approach would enhance market confidence and signal robust risk management to institutional investors. Comparable supervisory ratios are vital: without them, cross-border risk assessments are distorted, capital allocation is impaired and systemic trust erodes.

1.2.4 Balancing stability, cost and cross border cooperation

An industry representative further argued that regulation must strike a careful balance. Excessive implementation costs or disproportionate requirements can inhibit innovation and growth. When this equilibrium is lost, fragmentation and systemic vulnerabilities emerge. Cross-jurisdictional harmonisation is therefore critical. Canada offers a relevant example, where alignment with federal standards allows banks operating across provinces to remain competitive both nationally and internationally.

1.2.5 Long regulatory cycles and the competitiveness challenge

An official observed that the phase-in period for the Capital Requirements Regulation (CRR) will conclude in 2033 — twenty-five years after the Lehman Brothers collapse. The final rules are generally reasonable and calibrated to different institutional profiles. However, competitiveness is, by design, not explicitly part of the Basel framework, even though it remains a crucial feature of the financial ecosystem. Today, competitiveness is increasingly driven by technological capacity and economies of scale, particularly in IT systems. This issue cannot be resolved through adjustments to the regulatory framework.

2. Regional Approaches and National Specificities

2.1 European Union: early implementation, tailored adjustments and national divergences

The EU's implementation of Basel III is broadly faithful to the international standards but includes specific adjustments to reflect market particularities and national differences. While implementation has already begun – excluding the market risk package – concerns persist regarding competitiveness. Divergences in lending practices, internal models and legal frameworks continue to generate heterogeneous effects across the EU.

2.1.1 Tailoring the EU approach and competitive implications

A Central Bank official considered the EU's approach to Basel III implementation as balanced overall. Nevertheless, certain adaptations have been made to preserve the distinctive features of the European market and encourage priority activities. These adjustments may result in lower capital requirements compared to a straightforward application of the standards, potentially creating discrepancies with other jurisdictions. Delays in implementation by major non-EU economies could, in turn, distort the international level playing field and disadvantage EU banks, particularly in trading activities.

2.1.2 Internal models and national supervisory tools

A Central Bank official noted that the EU allows certain banks to continue using internal ratings-based (IRB) models under stricter conditions, whereas other jurisdictions may remove this option for specific exposures. The Hungarian Central Bank (MNB) supports the use of advanced internal methodologies for defined portfolios while preventing models that underestimate risk and reduce capital requirements. As a result, the introduction of the output floor is not expected to affect Hungarian banks using IRB models. Pillar 2 offers flexibility for addressing risks insufficiently covered by regulation, enabling national competent authorities (NCAs) to intervene when unaddressed risks are identified.

2.1.3 National specificities drive the divergent impact of Basel III

An industry speaker explained that retail mortgage portfolios will generally experience significant reductions in risk-weighted assets (RWAs). However, national lending practices vary widely. In some EU countries, loan-to-value (LTV) ratios of 100% are common, while in others, borrowers must provide 20–30% equity. Consequently, the beneficial effects of the new framework differ across jurisdictions. Collateral valuation also plays a decisive role: while some member states apply conservative standards, others historically rely on market values. CRR3 introduces the concept of lending value, which is more conservative than market value. In some countries, existing practices are already stricter, explaining why RWA outcomes differ between jurisdictions.

The Chair highlighted the tension between large institutions' calls for harmonisation and national regulators' preference for flexibility, concluding that if rules are not identical, they must at least be equivalent.

2.1.4 Legal frameworks influence off balance sheet treatment

An industry speaker further pointed to legal discrepancies affecting the treatment of off-balance-sheet items, such as the new minimum credit conversion factor (CCF)[1] of 10%. In certain jurisdictions, contractual loan commitments can reduce the CCF to zero due to differences in civil law: in some countries, commitments are legally binding; in others, they are not. It remains too early to determine whether the framework will fully reflect these legal variations, but considerable divergence is expected across EU member states.

2.1.5 Tailoring regulatory frameworks to local realities

A Central Bank official stressed that major economies apply global standards differently due to variations in economic structures, political priorities and local market features. Such differences affect timelines and transitional measures. Allowing a degree of flexibility within a

1. The Credit Conversion Factor (CCF) is a coefficient applied to off balance sheet exposures to convert them into credit equivalents for the calculation of risk weighted assets (RWAs). Exposures previously considered to carry very low risk must now be taken into account at a minimum rate of 10% in the calculation of RWAs.

uniform framework can support effective supervision. When global standards prove ill-suited to national contexts, they risk constraining growth or misrepresenting risk. Therefore, EU regulation should be calibrated to member state realities. In Hungary, for example, the MNB applies detailed bottom-up methodologies under Pillar 2 to determine capital requirements and address risks not fully captured by Pillar 1.

2.2 United Kingdom: strong alignment and strategic flexibility

The United Kingdom remains strongly committed to Basel III while adapting certain aspects of the framework to domestic circumstances. Its implementation timeline is converging with that of the EU without causing significant distortions. The UK approach aims to preserve resilience and international credibility while introducing proportionality and simplification measures to bolster competition and competitiveness.

2.2.1 Tailored but aligned: seeking consistency on market risk

A Central Bank official underlined that the UK is, in a limited number of circumstances, tailoring Basel III to its legal and regulatory context, notably regarding lending to small and medium-sized enterprises (SMEs), infrastructure projects and exposures to unrated corporates. These adaptations largely mirror those in the EU framework. The UK has postponed implementation of the market risk provisions related to internal models – a complex area closely linked to international activity. Given this, the UK, US and EU should pursue broadly consistent approaches. Many Asian and European jurisdictions have already aligned their regulatory packages with Basel III. Although the US has yet to publish formal proposals, progress appears imminent. Waiting for clarity on the US approach is therefore prudent, as the market risk rules will significantly influence global consistency and market functioning.

2.2.2 Comparing UK and EU implementation: converging capital stacks

This speaker noted that the Bank of England monitors the framework's effects beyond the UK, focusing particularly on capital structure outcomes. Comparisons suggest that the EU and UK capital stacks are converging, implying that neither approach is likely to create competitive distortions or undermine the framework's objectives. There is no material risk of regulatory arbitrage or new barriers to market entry. UK banks will not operate under lighter standards than EU peers. Any significant divergence could, however, threaten financial stability. The overarching purpose of Basel III remains the prevention of crises, which historically have cost on average around 60% of GDP and left long-lasting scars on economies.

2.2.3 Supporting growth while safeguarding resilience

A Central Bank official added that the renewed policy focus on growth has led to intensified lobbying by financial institutions. While advocating for consistent implementation, they also push for exemptions. Growth objectives must not undermine resilience, confidence or alignment with global standards. Stability should not be compromised in pursuit of competitiveness. UK regulators are simplifying reporting requirements, refining capital rules for smaller domestic institutions and accelerating supervisory processes. If these initiatives prove effective, they should not materially impact resilience or alignment with international standards.

2.3 Canada: a principles based regulatory system

An industry representative described Canada's application of Basel III as principles-based, integrating federal and provincial frameworks through guidelines rather than rigid rules. This enables risk-based supervision and ensures coherence between levels of authority. Collaboration among regulators and a shared commitment to values such as fair client treatment underpin the Canadian model. Supervisors communicate expectations through policy documents and apply judgement according to institutional size, complexity and systemic importance.

For instance, the Office of the Superintendent of Financial Institutions (OSFI) addresses AI governance at federal level through model risk management guidance, while Autorité des marchés financiers Québec (AMF Québec) is consulting on provincial rules for AI deployment. This approach accommodates jurisdictional differences while maintaining overall consistency. Provincial regulators are currently streamlining their guidance and deferring measures such as the capital floor due to global uncertainty.

Recent assessments, including that of AMF Québec, recommend removing barriers to confidential information exchange and strengthening federal-provincial cooperation on systemic risk. Institutions operating across multiple jurisdictions are encouraged to maintain open dialogue with all regulators to promote transparent, targeted and effective regulation.

3. Divergent impacts, strategic challenges and future adjustments

The discussion explored the differing effects of CRR3 across institutions, the strategic adjustments banks may need to undertake, and the operational and reporting burdens linked to its implementation. Panellists also discussed potential refinements to the regulatory framework – including simplification measures and a tailored regime for small and non-complex institutions (SNCIs) – aimed at enhancing proportionality and clarity while preserving resilience.

3.1 Economic and strategic implications for banks

3.1.1 The impact of Basel III depends on business model, client base and risk profile

An industry speaker noted that Basel III and CRR3 will have highly differentiated effects on risk-weighted assets (RWAs) and capital ratios, depending on each institution's business model, client structure and product mix. On average, RWAs are expected to rise by around 5%, though the results vary considerably. In the most affected cases, RWAs may increase by 10–12%, while some institutions, particularly retail mortgage lenders, could experience decreases of up to 15%. The largest increases are observed among banks active in commercial real estate, notably income-producing property.

Basel III aims to make the framework more sensitive to risk: higher risks lead to higher RWAs, and lower risks to lower RWAs. These figures are based on transitional arrangements; under the fully phased-in rules, the impact is more pronounced. While one bank reported an RWA increase of 40% under the final rules, others still recorded decreases.

3.1.2 Strategic implications

An industry speaker added that CRR3 will drive strategic repositioning within the sector. Some banks may divest certain assets or withdraw from specific business lines, while others will expand in areas that offer greater regulatory or capital benefits. The Chair confirmed that the European Banking Authority's (EBA) analysis reflects similar trends. While the degree of impact varies, this differentiation is intentional: the framework is designed to be risk-sensitive, and the direction of the effect is broadly appropriate.

3.1.3 Beyond capital: operational and reporting burdens

An industry speaker stressed that Basel III's impact extends beyond capital requirements. Implementation costs, expanded reporting obligations and data-sharing processes add to operational complexity and affect efficiency, cost structures and time-to-market. These elements contribute to the overall regulatory burden. While transparency and supervisory data exchange are essential, reporting mechanisms should be streamlined to strengthen both competitiveness and resilience.

3.2 Future adjustments and simplification

3.2.1 Simplification should strengthen resilience, not lead to deregulation

A Central Bank official remarked that the current debate on simplification indicates that another phase of regulatory adjustment may be warranted. There is broad agreement on the need to simplify the framework, yet the term "simplification" carries different meanings for different stakeholders. The objective is definitively not deregulation, but the development of clearer and more proportionate rules that strengthen the overall system, thus avoided unintended interactions caused by overlaps of microprudential, macroprudential and resolutions requirements.

A diversified banking ecosystem is inherently more resilient, as it serves varied client needs and provides multiple channels for absorbing shocks.

3.2.2 Small and non complex institutions

Th speaker further observed that CRR3 was primarily designed with large institutions in mind, and that reforming the SNCI framework could bring tangible benefits. The Bundesbank has proposed a leverage-based ratio approach for smaller banks with simple business models, while ensuring that risk coverage and liquidity requirements remain adequate. Such measures would support the financing capacity of SMEs and improve proportionality within the prudential regime.

Wrap up

The Chair concluded that closer communication between regulators, supervisors and the industry is essential. The discussion underscored the need for the EU to continue refining its response to the uneven global implementation of Basel III. Striking the right balance between global harmonisation and national specificities remains a central challenge – in Europe as well as globally – and will continue to shape future debates on regulatory simplification.