

DIVERGENT GLOBAL IMPLEMENTATION OF BASEL 3



FRANÇOIS-
LOUIS
MICHAUD

Executive Director – European
Banking Authority (EBA)

Resilience and reliability guiding Basel III implementation

The Basel III Accord agreed in 2017 was the global response to the financial crisis of 2007-2008, to make the global banking system safer. Beyond an overhaul of prudential rules, it represents a global commitment to restoring trust in the financial sector. It expects jurisdictions to further convergence towards a globally consistent framework, enabling internationally active banks to operate under a set of broadly similar rules, thereby fostering stability and a level playing field.

The October 2025 assessment of the Accord's implementation by the Basel Committee on Banking Supervision paints an overall positive picture. Almost all Basel members have transposed it into their local rules, with Asian countries being among the first and most comprehensive movers. The uptake of Basel III's standardised approach and internal ratings-based

approach in credit risk, operational risk and the output floor is nearly complete.

Uneven global implementation

Implementation is however not complete globally. In the US, the publication of a draft regulation is still expected. This led UK authorities to delay their own implementation to January 2027 and the EU to suspend its implementation of the advanced rules for market risk (FRTB) to allow for greater clarity to emerge.

Divergence in implementation timelines globally may become an issue. Uncertainty and prolonged delays from certain jurisdictions may lead others to react. This may slowdown implementation or even lead some countries to contemplate changing the contents of their transposing acts. As a result, a pattern emerges whereby implementation delays and regulatory divergences interact with one another to further complicate progress.

In fact, global implementation already fared the lowest in the areas of credit valuation adjustment and market risks. Differences in implementation are not mere technical calibration matters, they may result in diverging regulatory outcomes and impact banks' balance sheet decisions as well as cost of capital.

Through CRR3 and CRD6, the EU has committed to a faithful and comprehensive implementation of Basel III while catering for a temporary recognition of some EU specificities. The output floor is being phased in while credit risk and operational risk revisions are transposed in a manner closely aligned with Basel III.

Where the EU introduced adjustments, it has done so transparently and with the objective of reflecting structural features of its economy. This largely owes to the fact that the EU applies Basel III to all EU banks as opposed to internationally active ones only.

Competitiveness through predictability and resilience

Against a backdrop of shifting regulatory stances, the EU has continuously showed its commitment to a loyal implementation of Basel III. The EBA contributes to this through a timely delivery of regulatory mandates. Sequencing and execution can be found

in a roadmap and execution dashboard which are available on its website. This provides certainty to banks and other economic agents and helps them make investment and strategic decisions despite a very challenging environment. It also fosters trust and reliability in the EU regulatory framework.

This gradual implementation of Basel III in the EU is consistent with efforts for building up a robust Rulebook and supervisory framework for the past 15 years which bolstered the resilience of the European banking system. Not only have EU banks been able to absorb a series of shocks with no damage, they have now also restored profitability and resumed expansion.

EU banks CET1 is on average above 16%, with vast liquidity reserves, good and stable asset quality and profitability overall. EBA's EU-wide stress test published in August 2025 showed that they could withstand very adverse conditions and continue fund the real economy. Steadfast banking stability is a prerequisite for a jurisdiction to be seen as an attractive place to do business!

Continuing talks at the global level

Basel III objectives should be kept in mind. The Accord aimed to make the system safer after a period of heightened instability. While political priorities may evolve, global fragmentation should be avoided.

Global standards are the bedrock foundation of today's highly interconnected financial system. Past experiences have taught us the value of swift and coordinated actions resting on common rules. These rules also ensure that financial institutions can operate safely and fairly across the globe. In a context of geopolitical uncertainty and economic transition, reaffirming our commitment to multilateral cooperation remains crucial. Dialogue is key!

Moreover, completing Basel III is not only about reaching the regulatory finish line. It is also about proper supervision so the rules effectively apply. This means that supervisory cooperation across jurisdictions is more than ever needed, especially to assess interconnectedness, within the regulated sector and beyond.



JOERG HESSENMÜLLER

Chief Technology and
Operations Officer, Europe
and SCB AG, and Member
of the Management Board –
Standard Chartered Bank AG

Competitiveness and resilience: the next phase of banking regulation

The Basel III standards have entered their final phase of global implementation in a context markedly shaped by geopolitical tensions, economic fragmentation and intensifying global competition. Divergences in the pace of adoption across jurisdictions are creating a complex operating environment for banks where the risk of unlevelled playing field is a growing concern, particularly in business segments where international alignment is critical.

These varying approaches impact internationally active banks regardless of where they are headquartered. Regulatory fragmentation increases operational burden, complicates compliance frameworks and constraints the efficient allocation of capital. Beyond the formal rulebook, material differences in supervisory enforcement can be equally consequential. Even when regulatory texts appear broadly aligned across jurisdictions, variations in supervisory expectations can translate into significant cost and competitive disadvantage.

Against this backdrop, the EU must closely monitor global developments and ensure that its regulatory regime does not inadvertently disadvantage EU operations. This is of primary importance as regulatory divergence has been increasing in recent years through capital/liquidity overlays, ring-fencing policies, and local supervisory measures requiring decentralization of financial and operational resources and governance.

At the same time, the EU should also pursue domestic reforms to strengthen the competitiveness of its banking sector. Encouragingly, a shift in policy thinking is beginning to emerge. What is now required is action at scale and at pace. As European leaders discuss priorities to strengthen EU competitiveness, banking should feature prominently. A dynamic and resilient banking sector is in fact essential to finance the EU economy. When rules become overly conservative, excessively complex through duplicative add-ons, they risk taxing growth and pushing activity into less regulated parts of the financial system.

The global banking system is today demonstrably stronger, and the European banking sector has repeatedly proven resilient in the face of major shocks. More than fifteen years after the global financial crisis, it is now the time to reassess certain elements of the prudential framework, including the number, design and interaction of regulatory capital buffers.

**Europe can promote
a paradigm that
supports economic
expansion without
compromising resilience.**

While working closely with global standard setters, the EU should review overlaps, interactions and unintended consequences across capital and liquidity requirements. Attention should be paid to the calibration of requirements affecting equity, project and infrastructure finance exposures, where overly conservative treatment may constrain banks' capacity to support sectors critical to EU growth. Similarly, careful consideration should be given to conservative aspects of its jurisdictional approach such as the calibration of MREL above TLAC standards.

In parallel, growth and competitiveness should be explicitly recognised as drivers of banking regulatory decisions

in the EU, alongside financial stability. Recent reforms in the UK, including the introduction of a secondary competitiveness mandate for the FCA and the PRA illustrate how mandate clarity can help foster cultural change within supervisory institutions.

This should be accompanied by continued regulatory support for openness and cross-border banking within the Single Market to ensure that all banks can play their instrumental role in financing the EU economy.

Besides the regulatory rulebook, supervisory practices should also be in scope of simplification efforts. How prudential requirements are implemented, and the additional expectations set by supervisors, can be as consequential as the rules themselves. Gold-plating, extensive reporting obligations and a supervisory culture that is tilted towards non-materiality can weigh on competitiveness.

In this regard, we strongly welcome the recommendations of the ECB high-level task force on simplification, which recognises the need for a more proportionate, risk-based supervisory culture and clarifies that supervisory guidance should not create binding requirements beyond EU legislation.

As the EU advances its work on the competitiveness of the banking sector, it has a unique opportunity to shape the future direction of global financial regulation. By championing a balanced, risk-sensitive and growth-friendly approach, **Europe can promote a regulatory paradigm that supports economic expansion without compromising resilience.**

Constructive engagement with global partners will continue to be essential. In this respect, we recognise the importance of the ongoing work of the BCBS on strengthening supervisory practices, and the initiatives of the FSB to modernise regulation and supervision.

At Standard Chartered, we strongly welcome the momentum underway to strengthen banking competitiveness and stand ready to contribute to this debate with our unique global perspective.



STANISLAS ROGER

Deputy Head of EMEA Division,
SMBC Group & Chief Executive
Officer – SMBC Bank EU AG

Europe's competitiveness is not incompatible with international standards

Europe remains an attractive market for a global bank. It combines depth, diversity and a long tradition of financial innovation. We continue to see strong demand from clients who value access to international capital and the expertise of institutions that operate across regions. The broader geopolitical environment is complex, yet economic links between Europe and its partners remain strong. Recent developments have reinforced the relationship between the EU and Japan, which is recognised as a trusted partner and equivalent jurisdiction with a high standard of financial regulation. As a Japanese based G-SIB with a significant and growing presence in the EU, we fully support efforts in both the EU and Japan to boost economic growth and competitiveness.

Europe faces important funding and financing needs as it advances its long-term priorities and navigates a new geopolitical environment and a new industrial strategy. Third country banks play an important role in supporting the growth of the European economy, providing diversification and deep pools

of capital, and complementing local sources of funding. Strategic autonomy and international openness can work together when regulatory conditions are clear and predictable. We welcome and look forward to contributing to the Commission's recent initiative to boost the competitiveness of the EU's banking sector, which is key for Europe's growth.

The Basel framework underpins the stability of the global financial system and ensures a level-playing field between different jurisdictions, and it has helped supervisors and institutions to share a common view of risks and has supported confidence over many cycles. Recent geopolitical shifts have influenced the implementation of the Basel framework across major financial centres globally. Divergent implementation of Basel III can lead to regulatory fragmentation for international banks, who are operating across many different jurisdictions. The effect is often subtle, but it is increasingly more impactful. It may involve adjustments to internal processes or to the location of specialised functions and the efficient allocation of resources while commercial and client considerations should remain central.

We support the EU's actions to boost its real economy competitiveness through initiatives like the Savings and Investment Union and other industrial policies. However, it is important that policymakers implement prudential regulation in a harmonised manner to create the conditions for competition between banks, and in turn provide the best possible service to customers in the EU. We believe that any future reports or legislative proposals should focus on the real barriers faced by banks in the EU due to overly burdensome or duplicative regulation, without compromising on international standards. An excessive focus on reducing capital requirements in Europe could create an uneven playing field, while potentially not yielding the desired competitiveness edge.

**Strategic autonomy and
international openness
can work together.**

We recognise the efforts made by policymakers and authorities to review the supervisory framework and reduce unnecessary complexity, such as the recent ECB reports on simplifying the regulatory framework and on streamlining supervision. From a regulation standpoint, it is important that simplification provides a reduction in the overall burden of regulation,

rather than simply delays. Timely and clear regulatory guidance that avoids gold-plating can support smooth implementation and enhance the EU's position as an attractive destination for global banks. Streamlining the number and sequencing of technical mandates (such as Level 2 standards) can improve the overall coherence of the framework. When rules are easier to navigate, institutions can focus on serving clients and managing risks effectively.

Supervision plays a vital role alongside regulation to safeguard financial stability. EU Authorities have increasingly strengthened supervisory consistency across the Single Market, but a more effective supervisory framework has a mixture of tools and culture that ensure financial stability while limiting administrative barriers. Practices that consider potential competitiveness effects, while remaining anchored in safety and soundness, can create a more balanced environment for all banks active in Europe.

We welcome the open dialogue with EU policymakers and supervisors. Through continued cooperation, Europe can maintain a strong and resilient financial sector that delivers for European businesses and households. Alignment, proportionality and simplification will help ensure that the regulatory environment continues to support financial stability and economic growth.



DENISE BAUER-WEILER

Member of the Management Board UBS Europe SE – UBS

Now is the time to enhance the effectiveness of the banking prudential framework

The European Commission's review of the banking sector competitiveness marks a valuable opportunity to reflect on the past decade of reforms that have shaped the current prudential regulatory framework. Now is the time to identify where the rules can be simplified, adjusted, or improved for European banks to remain globally competitive and can more effectively support Europe's economy and growth.

The Basel framework was designed to create a level playing field and enhance the resilience of the global banking system by harmonizing capital and liquidity requirements across jurisdictions. However, as countries progress in the implementation of the Basel III final standards, we observe increasing divergence, whether through delayed timelines, or substantial local adjustments to the requirements.

These inconsistencies create regulatory gaps and overlaps, making it harder for market participants to assess and compare risks across borders. Such fragmentation erodes trust in the regulatory framework and can undermine financial stability, either by

leaving certain risks unaddressed, and potentially shifting financial activity to less robustly regulated financial sector segments.

Local gold-plating of rules is another form of regulatory fragmentation that can be equally detrimental, putting banks subject to more stringent requirements at a competitive disadvantage compared to their international peers.

Moreover, overly complex standards or rules that are insufficiently targeted to actual risks, have not been implemented consistently, highlighting the need for a reassessment of their effectiveness at the Basel level. For instance, the capital treatment of unrated corporate exposures has been implemented in a highly fragmented manner. An international review could pay greater attention to unintended consequences and their impact on lending capacity, ensuring that access to finance is not unduly restricted.

The question whether the Fundamental Review of the Trading Book (FRTB) should be fundamentally rethought needs to be also addressed by global standard setters, given widespread implementation delays and ongoing concerns about its complexity and usability.

All of this is not about a race to the bottom. Rather, it is about recalibrating a functioning framework through targeted and internationally aligned reforms, without compromising the financial stability safeguards already in place.

In fact, certain rules might need to be further enhanced, and we stand ready to constructively contribute evidence-based arguments to policy discussions. For example, the experience with Additional Tier 1 (AT1) instruments has shown that they can function as intended, providing valuable loss absorption and supporting financial stability during times of stress. As such, these instruments should remain an integral part of the going concern capital stack. There is room to assess if and how to enhance their features further, but it is essential that any changes remain aligned across jurisdictions to maintain investor confidence and ensure consistency in the features of AT1.

Lastly, supervisory culture plays a crucial role in ensuring that the effectiveness of the framework is reflected in practice. More effective, risk-oriented supervisory processes can reduce excessive burden on banks which at times arise not from the regulations themselves, but from the way they are implemented, and help free up resources to support clients and enhancing lending capacity. Also, regulators should adapt their mindset

to embrace competitiveness as a key component of banks' resilience – as any regulator will tell you, only a profitable bank is a safe bank. The approach adopted in the UK, which encourages regulators and supervisors to adopt a mindset of "responsible risk taking" and the introduction of a secondary growth objective should be also considered in the wider European context.

This is not about a race to the bottom. Rather, it is about recalibrating a functioning framework.

We therefore see a twofold path to enhance the effectiveness of the EU prudential regulatory framework: one at EU level, to structurally reduce additional national layers of regulation and to embed a strategic focus on growth and competitiveness within regulators' mandates, which should be achieved in a way consistent with institutional responsibilities and another through renewed engagement at the Basel level to enhance the effectiveness of globally agreed standards in a targeted and risk-based manner.

A coordinated effort, involving all stakeholders, will be essential to ensure that Europe's banking sector can fully play its role as a driver of growth and competitiveness, precisely when its financial intermediation capacity is most needed.



ERIC LITVACK

Group Director of Public Affairs – Société Générale

The EU banking competitiveness question

Evidence increasingly shows that EU banks face a structural competitiveness gap versus non-EU peers — including inside EU markets. EU regulation layers high risk-based requirements, multiple supervisory add-ons and overlapping buffers on top of Basel standards. This raises compliance costs, suppresses profitability and, as highlighted in the Draghi report, constrains lending capacity, while other jurisdictions opt for lighter or more flexible calibrations.

Three pressures reinforce this gap:

Higher capital and buffer top-ups. EU banks' CET1 ratios average ~16% vs. ~13% for US peers, driven mainly by European “top-ups” and overlapping buffers. No single EU authority assesses the full stack, entrenching fragmentation and cost.

Basel output-floor impact. The output floor reduces the value of internal models, especially for low-risk mortgage and corporate lending—areas central to EU real-economy financing.

Regulatory divergence abroad. Ongoing US/UK recalibrations (e.g., slower market risk implementation, broader deregulatory moves) risk widening the gap just as EU rules tighten, skewing cross-border

competition in capital markets and wholesale banking.

The economic opportunity cost is material. A recent industry sample suggests that supervisory discretionary measures since 2021 absorbed >€100bn of capital at 15 large EU banks—roughly 90% of retained earnings—limiting up to €1.5tn of potential financing for the EU economy. In parallel, capital and liquidity remain “trapped” in subsidiaries due to national ring-fencing, reducing efficiency and scale precisely when large fixed investments in AI, cyber, data and compliance require larger balance sheets.

The result is a de facto penalty on EU banks: higher capital intensity, limited resource fungibility, and slower regulatory adaptation. These weaken pricing power in lending, underwriting and trading relative to non-EU banks and less-regulated non-banks.

In a shifting landscape, what role for a global framework?

The strategic aim—credible, risk-sensitive, globally aligned rules—remains valid. But timing and calibration matter. If major jurisdictions delay or dilute implementation, a rigid EU stance risks locking in long-term competitive disadvantage without commensurate stability benefits.

A pragmatic EU approach would preserve Basel alignment while applying **targeted flexibility** where needed to sustain competitiveness and financing capacity:

Within the Basel framework, adjust the when and how. Align FRTB (market risk) timing and substance with peers to avoid unilateral capital increases in EU investment banking.

Neutralise disproportionate hits to low-risk lending. Make the output-floor transition framework for prime mortgages and investment-grade corporates permanent, and mirror it under the standardised approach.

Rationalise the buffer stack. Reduce overlaps and remove gold-plating, such as the excess calibration of MREL relative to the global TLAC standard.

Trim non-Basel add-ons unique to the EU. Reassess software deductions, prudent valuation and NPL treatments where EU rules overshoot peers while maintaining resilience.

Advance a true Single Market for Banking. Increase intra-group mobility of capital and liquidity and remove remaining cross-border frictions. The

resulting freed capacity is essential to scaling securitisation and capital-market intermediation.

Embed a competitiveness mandate. Add a secondary **competitiveness and growth** objective to EU supervisory authorities (EBA/ESMA) and streamline supervisory practice to reinforce risk-proportionality and simplicity—so that rules work with Europe's investment push, not against it.

Burden reduction is the only lever capable of providing an immediate productivity financing boost.

Bottom line

Yes, divergent frameworks are already placing EU banks at a disadvantage—visible in higher capital intensity, fragmented supervision and slower regulatory recalibration relative to the US/UK. **SIU is a strategic necessity, but which can only deliver value in the medium-to-long term – in an EU economy that remains 75% bank-financed, smart burden-reduction is the only lever capable of providing an immediate productivity financing boost.**

Therefore, if global convergence does not materialise on schedule, a **calibrated, flexible** implementation of CRR3/CRD6 is the right strategy: maintain Basel credibility, but adjust timing and parameters where EU real-economy needs and level-playing-field concerns are most acute. This means aligning FRTB timing, cushioning output-floor effects on low-risk books, streamlining buffers and gold-plating, freeing trapped capital via Banking Union, and embedding competitiveness into supervision—while preserving post-2008 resilience.

This is not deregulation; it is **regulatory strategy**: ensuring Europe's banks have the stability and scale to finance defence, green and digital transitions and compete fairly at home and abroad. The time for diagnosis is past, now is the time for decisions.