

# Divergent global implementation of Basel III

The implementation of Basel III has progressed significantly, but it is increasingly marked by divergence across jurisdictions, raising concerns about the level playing field and the consistency of the global regulatory framework. In this context, the panel focused on the EU's position, balancing the benefits of a robust prudential framework with the need to address fragmentation, complexity and evolving international dynamics. The panel was structured around three key themes: the global state of Basel III implementation and the emerging areas of divergence; the strengths and challenges of the EU framework; and the policy responses required to enhance coherence, simplify regulation and support the competitiveness of the European banking sector.

## 1. Basel III implementation: the global state of play

The Chair opened the panel by noting that Basel III implementation was incorporated into the banking package in January 2025. Basel III is almost fully implemented in the EU. Only the Fundamental Review of the Trading Book (FRTB) remains outstanding. Many other global jurisdictions have made commendable progress. The US has recently announced a new proposal that would represent a significant step towards the implementation of Basel III.

### 1.1 Divergence undermines competition and financial stability

#### 1.1.1 Uneven implementation and fragmented timelines

An industry speaker observed that the implementation of Basel III has revealed several key points of divergence between jurisdictions. While some countries adopted the standards more promptly and consistently, others have postponed implementation or introduced adjustments. For global players, adapting to this fragmented landscape entails additional effort and increased cost. FRTB implementation took effect in Switzerland in 2025, while implementation will begin in the EU and UK in 2027, and continuing in the UK in 2028.

#### 1.1.2 Operational burdens, competitive distortions and risks to financial stability

An industry speaker explained that these divergences create complexity and undermine the global level playing field. Banks headquartered in jurisdictions which have implemented the rules more stringently or on a timely basis face a competitive disadvantage compared to competitors in regions with less strict rules or delayed implementation timelines. These inconsistencies affect banks' competitive positioning, profitability, operational strategies and international resource allocation. They result in regulatory gaps and overlaps, which complicate

cross border risk assessments. Ultimately, regulatory divergence compromises financial stability by leaving risks unaddressed or incentivising firms to shift activities to less regulated markets. Without renewed effort to close these gaps, the differences between jurisdictions will widen and the global level playing field could be placed in jeopardy.

### 1.2 Basel III in the United Kingdom: a delayed but steadfast approach

#### 1.2.1 A revised timeline with targeted flexibility to align with global developments

A regulator noted that the UK published its final Basel III rules in January 2026. Full implementation is scheduled for 1 January 2027, with the exception of the market risk internal model approach. Firms can continue to use their existing models for market risk until 1 January 2028 in order to allow for the possibility of alignment with the forthcoming US rules. The UK is two years behind its original implementation date of 1 January 2025. The UK is following the same transition path, albeit with a delayed entry point. The fully phased-in output floor should still be implemented according to the original timeline of 2030.

#### 1.2.2 Balancing compliance, competitiveness and financial stability in the UK framework

A regulator explained that the UK approach incorporates adjustments in areas such as corporate credit valuation adjustment (CVA) and counterparty credit risk, but it remains compliant with the Basel framework. The PRA has confirmed that it will consider its secondary competitiveness objective as part of Basel III implementation. However, the UK regulators' mandate prioritises financial stability. The UK regulators will only seek to promote competitiveness and growth if it does not compromise this primary objective.

### 1.3 Basel III in Japan: stability, predictability and the case for greater consistency

An industry representative stated that large banks in Japan have been implementing Basel III in full from March 2024. Japanese banking groups have maintained robust tier 1 and common equity tier 1 (CET1) positions, thanks to their strong balance sheet structures and compliance with the Basel framework. The overall trajectory under Basel III has supported stable capital ratios and transparent risk management. This shows that timely implementation of internationally aligned standards with supervisory predictability can promote growth.

### 1.4 Who drives divergence? Rethinking global Basel implementation differences

A regulator commented that divergences between jurisdictions are often driven by lobbying from major

international banks. He noted the need for a clearer understanding of differences in capital requirements across jurisdictions, as claims that EU requirements are tougher than those in the US remain contested and may rely on misleading comparisons. The UK is seeking to implement a radical approach to regulatory simplification for small banks from 1 January 2027. However, this approach will not be implemented internationally in order to preserve the UK's compliance with the Basel framework.

An industry speaker stressed that the Basel framework must acknowledge the reality of divergence. The Basel standards should aim to manage divergence intelligently and find common ground for convergence through evidence based reviews of supervisory divergence and implementation outcomes. While there must be some form of global consistency, it must take account of reality.

## 2. The EU prudential framework: strong foundations and structural challenges

### 2.1 Delivering Basel III in Europe: a milestone for stability and competitiveness

#### 2.1.1 The CRR/CRD negotiations have delivered compliance while reflecting EU specificities

A public representative stated that the negotiations on the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) have delivered significant progress while taking account of a wide variety of stakeholder views. The latest Basel Committee report on the implementation of Basel III confirms that the EU has achieved compliance. This shows that the Union is a truly international partner and it ensures the future safety, stability and competitiveness of the European banking system.

#### 2.1.2 Strengthening the banking union: consolidation, competitiveness and financing the real economy

A public representative emphasised that financing should be more accessible and cheaper when banks are more stable. Stability enables banks to supply liquidity to the real economy. There is widespread anticipation about the results of the European Commission's public consultation on the competitiveness of the EU banking sector. Accelerating the consolidation of the single market is the best way to enhance competition and competitiveness in the EU banking system.

### 2.2 EU banking framework: strong foundations in a challenging environment

#### 2.2.1 Robust regulation and Basel III implementation support resilience in a challenging environment

A policy maker emphasised that European banks are well capitalised, profitable and resolvable. This is partially due to the robust regulatory framework which has been developed over the past decade, including the establishment of the Single Supervisory Mechanism

(SSM) and Single Resolution Mechanism (SRM). The successful implementation of Basel III means that European banks are entering the current period of geopolitical uncertainty from a position of strength.

#### 2.2.2 Addressing fragmentation and divergence through evidence based and holistic policy action

A policy maker asserted that EU banks' falling market share in investment banking can be attributed to a wide variety of different factors. The European Commission has launched a consultation in order to gather evidence to inform future policymaking. The Commission expects stakeholders to express a variety of views, but respondents must provide facts and figures rather than opinions. It is clear that regulatory divergence can distort the level playing field.

For example, divergent approaches to FRTB can lead to market distortions. FRTB implementation has been delayed twice and plans are in place to mitigate any discrepancies that might competitively disadvantage European banks. The European Commission is studying the implications of the US re proposal and is prepared to act to mitigate discrepancies. Ultimately, the scale of EU banks needs to be addressed by reducing the fragmentation of the internal market. In this context, the Savings and Investments Union (SIU) and the completion of the banking union become even more important.

### 2.3 Competitive disadvantages: rethinking the EU's prudential approach

#### 2.3.1 Divergences and capital layering are constraints on competitiveness and financing capacity

An industry speaker stated that global divergence is affecting EU banks' decisions on capital and resource allocation. EU banks face a structural competitiveness gap driven by a layering of capital, buffers and supervisory add ons. The lack of a single authority capable of assessing the complete capital stack is a significant problem.

On average, the CET ratio for EU banks is around 16% compared to 13% for their US counterparts. This difference is primarily due to EU top ups and overlaps rather than an increase in underlying risk. This supervisory discretion carries a real economic cost. Since 2021, discretionary measures have absorbed around €100 billion of capital from the 15 largest EU banks, which restricts up to €1.5 trillion of financing for the real economy. This is particularly significant given Europe's rapidly increasing investment needs. In this context, a rigid unilateral stance on Basel is risky. While peers are delaying, recalibrating or diluting the framework, an inflexible approach risks creating a permanent disadvantage with no commensurate benefits.

#### 2.3.2 A strategic regulatory review to restore flexibility, scale and investment capacity

An industry speaker remarked that the solution is not deregulation, but rather a strategic regulatory review. While remaining Basel aligned, the EU should stop further regulatory escalation and apply targeted flexibility to the timing and calibration of certain measures to enhance the Union's overall financing

capacity. In practice, this will involve aligning the timing and substance of FRTB with peer jurisdictions in order to avoid unilateral capital shocks in EU market activities; neutralising the disproportionate effects of the output floor on low risk mortgages and investment grade corporates; rationalising the buffer stack and eliminating overlaps and EU specific add ons; liberating trapped capital and liquidity by treating Europe as one banking jurisdiction; and embedding competitiveness into supervision. In an economy that is 75% bank financed, optimising the prudential requirements is crucial. As global convergence falters, Europe should prioritise calibrated flexibility over strategic self disadvantage.

The Chair commented that the debate lacks an impact assessment of the current state of Basel implementation. The regulatory and supervisory authorities should support the co legislators by providing the facts they need to strike the right balance in the regulatory framework.

## 2.4 Additional implementation challenges

### 2.4.1 Complexity and gold plating

An industry representative highlighted that the main issues with the Basel framework emerge in implementation and enforcement. The EU's implementation of Basel III is unnecessarily complex in certain areas, such as the distinctions between the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and the Total Loss Absorbing Capacity (TLAC). Global players recognise the complexities, costs and challenges of operating within the EU; they do not see Europe's competitor jurisdictions as lazy, unsafe or unregulated.

### 2.4.2 Simple and consistent rules will support Europe's strategic objectives

An industry representative observed that there is also divergence within the Union itself. When a directive is transposed into national law and enforced by national supervisors, it often differs significantly from the original text. This divergence must be addressed for the EU banking sector to become an effective tool in supporting Europe's strategic objectives. Hopefully, the European Commission's consultation will result in targeted rules that focus on realistic objectives and a reduction in excessive reporting requirements.

## 3. Towards coherence: simplification, coordination and policy responses

### 3.1 Rethinking capital and competitiveness: the case for completing the banking union

#### 3.1.1 Challenging the trade off between capital requirements and lending

A public representative challenged the assumed trade off between capital requirements and lending. There is no peer reviewed evidence for the claimed trade off between capital requirements and loan supply. It is

argued that high capital requirements limit loan supply and Europe's significant investment needs warrant a reduction in capital requirements. More evidence is required for these views. The trade off may well work in the opposite direction. Higher capital requirements could mean safer banks and greater access to finance, enhancing banks' capacity to fund the real economy.

#### 3.1.2 Simplification, integration and capital mobility

A public representative stressed that completing the banking union must be the utmost priority. Merely reviewing the prudential framework will not support the real economy and the competitiveness of the banking system. The supervisory framework does require simplification. There are many different supervisors making decisions and many different capital buffers. As there is no single market, member states, finance ministers and national supervisors insist on tools that do not foster a competitive European banking sector. While the EU's simplification agenda is impressive, these efforts must focus on completing the banking union rather than on reducing capital requirements.

The use of capital and liquidity waivers should be expanded in order to increase intragroup mobility of capital and liquidity. Current regulations have resulted in capital and liquidity being trapped within member states. Freeing up this capital would help to finance the real economy.

When the output floor was implemented, the European Parliament advocated applying it at a consolidated level. However, due to the Council's position and the fragmentation of national markets, the output floor was accepted for application at both the consolidated and local levels. In this context, more work is needed on the European Deposit Insurance Scheme (EDIS) and the review of cross-border mergers.

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### 3.2 Simplifying the prudential framework: capital stack and reporting reforms

The Chair noted that the EBA is actively looking into simplifying the capital stack. As part of its recommendations for improving the regulatory and supervisory framework, the EBA proposed simplifying the micro, macro and resolution frameworks and their interactions with each other. It may be beneficial to create new types of colleges where authorities can discuss the impacts, overlaps and gaps of their respective measures. The EBA will soon be publishing a significant proposal to reduce harmonised reporting, which will include both EU level and national reporting requirements. This simplification agenda is also seen as a key lever to improve the efficiency and competitiveness of the EU banking framework.

### 3.3 Enhancing predictability through simplification and supervisory consistency

An industry representative agreed that simplifying the capital stack would streamline the framework. Aligning

the national approaches to the macroprudential framework will enhance predictability, which is a key priority for international banks. In general, consistency in supervisory practices is as important as harmonised regulation for cross-border banking groups. The best supervisory approaches are dialogue led and involve horizontal benchmarking, clear milestones and consistent coordination. Supervisory colleges offer many of these benefits.

### **3.4 Holistic prudential regulation will enhance efficiency and coherence**

A policy maker emphasised the importance of adopting a holistic approach to regulation. There is no 'silver bullet' for regulatory divergence. Lowering capital requirements will not be sufficient unless the Union's internal barriers are eliminated and the banking union is completed. There should be synergy between the macroprudential, microprudential and resolution frameworks.

The Chair noted that the EBA has put forward a report on how to foster the efficiency of the regulatory and supervisory framework. In that report, on recommendation is exploring the possibility of taking a holistic approach to the microprudential, macroprudential and resolution requirements. Basel III remains a key pillar of financial stability, but its uneven global implementation is increasingly affecting competitive conditions across jurisdictions. The priority for the EU is to adapt its framework to the external environment while preserving its strengths. Reducing fragmentation, simplifying regulation and advancing the banking union will enhance competitiveness, but a pragmatic approach is needed to manage divergence without undermining the credibility of global standards. To that end, a more coherent, evidence based and holistic policy framework will be essential.