BASEL III DIVERGENCE IMPACTS

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The comparison of capital requirements: facts and policy implications

The current geopolitical context is not facilitating an environment of regulatory policy convergence and, in particular, a swift implementation of the Basel III framework. After the publication of the proposals by the US regulatory agencies in March 2026 (the US proposals hereafter), which would imply deviations from the Basel framework, a debate has emerged on how other jurisdictions, in particular the European Union, should react.

In order to facilitate an orderly reflection on that sensitive policy issue, a few facts should be taken into account.

First, the US proposals entail a significant reduction of capital requirements for US banks, mostly due to the removal or alleviation of jurisdiction-specific prudential requirements, such as the supplementary leverage ratio, the stress-test capital buffer and the special calibration of the G-SIB (global systemically important bank) buffer.

Second, the US proposals affect the implementation of Basel standards relating to the computation of risk weights and the definition of capital. However, on average, the deviations do not imply by themselves an alleviation of capital requirements in relation to the pure Basel framework for banks which are considered internationally active. While deviations from the Basel standards relating to deductions from regulatory capital, market risk and some credit risk exposures would imply lower capital requirements, the effective ban on the use of internal models to measure credit risk would imply higher measures of risk-weighted assets (RWA) and, therefore, higher capital requirements for the same minimum capital ratio. Indeed, since the methodologies to measure RWA differ markedly, comparisons cannot be made only on the basis of capital ratios over RWA.

Third, the absence in the US proposal of an output floor to restrict the impact of internal models on RWA currently has no impact on any US bank. Since credit risk is, by far, the most relevant component of banks' risk exposure, the use of internal models only for market risk has a limited impact, even without the output floor, on aggregate RWA.

And fourth, based on the above, available evidence shows that the counterfactual application of US regulation to large internationally active European banks would not generally result in lower capital requirements, even after considering the recent US proposals.

Those facts do not therefore suggest a significant competitive disadvantage for large European banks in relation to their US counterparts stemming from tighter prudential requirements. In other words, it is far from clear that the US proposals alone would justify a reconsideration of the EU implementation of Basel standards, implying an across-the board relaxation of capital requirements. In particular, as the output floor is not binding in the United States, the absence of that constraint in the proposed US rules can hardly support a convincing case to remove or alleviate that restriction in the European Union. Unlike US banks, European banks can and do deploy internal models intensively for both credit and market risk, and that significantly reduces their required capital.

A more complex issue involves the US proposal to significantly reduce the stringency of the market risk framework – the so-called fundamental review of the trading book (or FRTB). Market trading is not generally the main activity of commercial banks, but those which are more active compete with each other in highly integrated international capital markets. Therefore, deviations from the international standards for trading activity have a direct effect on the level playing field.

In any case, there continues to be scope to revise the EU-specific requirements. In addition to the welcomed proposal by the ECB to streamline macroprudential buffers, it would be important to ensure within the banking union a more coordinated approach among responsible authorities (whether European or national) for the calibration of the microprudential and macroprudential buffers. At the end of the day, the overall capital of the system – which depends on the aggregation of all different requirements and buffers – should meet both macroprudential and microprudential objectives.

More importantly, beyond the prudential framework, the area in which European banks are more clearly exposed to tougher requirements than in other jurisdictions is that of resolution. The internal loss-absorbency requirements implied by MREL are more stringent than international (TLAC) standards. There is therefore scope to reconsider the former. But, to avoid unduly constraining available funding in resolution, a commensurate increase in the availability of external (ideally mutualised) funds would be required.

The views expressed are the author's, and do not necessarily reflect the views of the Bank for International Settlements or its member central banks.

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Basel III: Preserving the credibility of the global minimum standard

Back to the roots of Basel

Discussions about Basel III often focus on differences in national implementations. While differences are part of a critical debate, they should be assessed against the original purpose, which has been in place since the original Basel I Capital Accord: level playing field and comparability of banks' capital ratios. Following the Global Financial Crisis, Basel III was designed to restore confidence in regulatory capital ratios by improving the quality of the capital ratio metrics (through better definition of capital and increased, more consistent risk capture by RWA, in particular). To restore confidence, the Basel Committee launched its RCAP to ensure full, timely and consistent implementation of Basel III.

Not all divergence matters equally

Implementation differences should be distinguished according to whether they concern areas that Basel intentionally harmonised (minimum standard for Pillar 1 and related Pillar 3 disclosures) or areas where national discretion was always envisaged.

Legitimate divergence: Basel deliberately leaves room for national discretion in areas such as:

- Pillar 2, including e.g. stress-testing frameworks;
- macroprudential measures reflecting domestic financial systems and credit cycles.

These differences may result in different overall capital requirements but are fully consistent with the Basel framework.

Material divergence: Closer attention should instead focus on differences affecting the agreed minimum standard, including:

- significant implementation delays;
- unjustified material deviations from Pillar 1 standards.

The RCAP aims at identifying material divergence. While no benchmarking exercise can fully capture all national specificities, it remains an essential transparency mechanism for preserving confidence in the Basel framework.

Consistency matters because credibility matters

Basel III derives its value not simply from harmonising rules, but from providing a credible common minimum standard against which banks operating under different supervisory frameworks can be meaningfully compared.

A national implementation consistent with the Basel Pillar 1 minimum standard still allows jurisdictions to pursue different supervisory philosophies, including different Pillar 2 frameworks and macroprudential policies, while preserving confidence that reported capital ratios remain broadly comparable across internationally active banks. Furthermore, this consistent implementation also facilitates a comparison of banks' actual capital levels and capital requirements (in % of RWA) even when developed under different supervisory philosophies.

Increasing complexity calls for proportionality

The Basel framework has become much more detailed over time. The first Basel I comprised only a few dozen pages, Basel II several hundred, and the current consolidated Basel framework comes very close to 2'000 pages. Against this background, however, greater complexity strengthens the case for more proportionate implementation. The appropriate response is not to dilute the international minimum standard, but to simplify its application for less complex, non internationally active banks without compromising prudential objectives.

Switzerland illustrates that consistency and proportionality can coexist

Switzerland demonstrates that comprehensive implementation and proportionality are complementary. Basel III final has been implemented comprehensively while introducing proportionate implementation mechanisms, most notably the Small Banks Regime.

This regime allows smaller banks to avoid the complexity of the Basel III final RWA calculation if they in particular meet an 8% leverage ratio requirement. Importantly, this regime is not an exemption from Basel III final but a simplified implementation approach that preserves the capital adequacy objectives of the framework for smaller, less complex banks.

Basel III is more than a regulatory framework—it is a cornerstone of trust.

For mid-sized and smaller banks, the Swiss implementation of Basel III final has introduced a series of proportionate rules that avoid certain complexities of the Basel framework. Again, these simpler rules do not lead to lower RWA.

This spirit of simplification is even part of the Swiss banking regulation since Basel II: in order to avoid undue burden and costs, any bank may implement the rules in a simpler way if this does not lead to lower RWA.

Conclusion

Basel III remains the global benchmark for minimum capital standards for internationally active banks. National flexibility is both necessary and desirable where the framework provides for national discretion. At the same time, preserving a credible and consistently implemented Pillar 1 minimum standard remains essential for maintaining confidence in regulatory capital ratios and supporting meaningful cross-border comparisons.

For globally integrated financial centres such as Switzerland, long-term competitiveness is not supported by deviating from global minimum standards, but rather by the combination of credible implementation and proportionate implementation.

PHILIP EVANS
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Basel III divergence: A test for global prudential standards

How regulators balance resilience against efficiency, rules against judgement. Basel III emerged from the global financial crisis as a rare example of international regulatory consensus. Policymakers agreed that banks needed stronger capital, better risk measurement and a common framework that would support both resilience and a level international playing field.

Today, the challenge is no longer agreeing the standard but maintaining consistency in how it is applied.

As jurisdictions move towards implementing the final elements of Basel III, differences are emerging in areas such as market risk, internal models and output floors. Some variation is inevitable. Banking systems differ, economic structures vary and national authorities face different policy priorities.

At its heart, Basel III was designed to improve the accuracy of risk measurement and reduce excessive variability in risk-weighted assets. Following the crisis, supervisors became concerned that banks using internal models could produce materially different capital outcomes for similar risks, weakening comparability and confidence. The final Basel package sought to address this through more risk-sensitive standardised approaches, tighter limits on internal models and the introduction of the output floor.

The implementation debate reflects different views on how those objectives should be achieved.

One perspective emphasises consistency and comparability. From this viewpoint, close adherence to international standards promotes a level playing field, limits opportunities for regulatory arbitrage and strengthens confidence in global banking markets. If banks face significantly different requirements across jurisdictions, comparisons become more difficult and the credibility of common standards begins to weaken.

A second perspective accepts the value of international standards but argues that implementation should remain sensitive to domestic evidence and market structures. Under this approach, regulators may adjust specific calibrations where local data suggests a different treatment better reflects underlying risks. The aim is not to depart from Basel's intent, but to ensure regulation remains proportionate and practical.

These distinctions may appear technical, but they reflect deeper differences in prudential philosophy. Increasingly, the debate is about how regulators balance resilience against efficiency, rules against judgement, and international consistency against domestic priorities.

How regulators balance resilience against efficiency, rules against judgement.

The market risk framework provides a useful illustration. The Fundamental Review of the Trading Book was introduced to address weaknesses in the pre-crisis framework, including inadequate risk models and inconsistencies in the treatment of trading activities. The reforms established clearer boundaries between banking and trading books, more risk-sensitive standardised approaches and higher standards for model approval. The objective was straightforward: improve the accuracy and comparability of risk measurement.

Yet market risk also demonstrates why divergence matters. Trading activity is inherently global. Banks operate across multiple jurisdictions and capital markets depend on a common understanding of risk and resilience. As implementation differences emerge, firms face greater complexity, higher compliance costs and reduced comparability of outcomes. Where standards diverge materially, achieving a genuinely level international playing field becomes more difficult.

The debate over competitiveness adds another dimension. Some argue that lighter requirements improve competitiveness by reducing costs and increasing banks' capacity to lend and invest. Others contend that prudential credibility is itself a competitive advantage. Strong and trusted regulatory frameworks can support investor confidence, lower funding costs and improve resilience during periods of stress. From this perspective, competitiveness and resilience are not opposing objectives but mutually reinforcing ones.

Moreover, sustained divergence may increase the importance of supervisory cooperation and international forums, as authorities seek to preserve mutual trust and a shared understanding of emerging risks even where regulatory frameworks evolve in different directions.

Ultimately, Basel divergence is about more than the calibration of individual rules. It reflects differing views on the purpose of prudential regulation and the role of supervision itself. The challenge for policymakers is therefore not eliminating all divergence, but ensuring that implementation differences do not become so significant that they undermine confidence in the global framework.

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Resilience, competitiveness and Basel III in a fragmenting world

The finalisation of Basel III reforms marked the culmination of more than a decade of international cooperation focused on strengthening the resilience of the global banking system. They significantly bolstered the capital, liquidity, and risk management frameworks, ensuring that the financial sector can support growth and withstand periods of stress.

The EU has long been among the strongest supporters of the Basel framework, implementing the standards on schedule in a faithful and consistent manner. The EBA continues working on its Basel III roadmap to provide clarity and guidance on technical elements. This commitment produced clear benefits, with EU banks now being better capitalised, maintaining stronger leverage positions and steady profitability, evidenced in the last EBA EU-wide stress test. This resilience has itself become a source of competitiveness, reinforcing confidence among investors, depositors and market participants.

However, the global context is evolving. While most Basel Committee members have implemented the main elements of Basel III, notable differences persist in timing, scope, and national adjustments. In some jurisdictions, implementation has been delayed or selectively altered, raising the risk that the shared international framework could gradually fragment.

Therefore, the EU should continue to base its prudential framework on the long-term benefits of consistent application of international standards. A predictable and credible regulatory structure limits regulatory arbitrage, supports cross-border banking and strengthens financial stability. For these reasons, the EU has a strong strategic interest in maintaining the Basel framework as the global benchmark while continuing to lead convergence across jurisdictions through the Basel Committee and other international fora.

Although consistent implementation does not mean excessively rigid regulation, divergent application of Basel III may create growing challenges for internationally active banks. Larger banks operate within increasingly complex capital frameworks, with up to ten interacting capital layers. Combined with overlapping measures and inconsistent implementation, this complexity calls for a careful assessment of the regulatory burden against its prudential benefits, balancing efficiency and a level playing field with resilience, Basel compliance and proportionality.

This resilience has itself become a source of competitiveness.

Preserving a global level playing field built on consistent and faithful implementation therefore remains essential, especially in areas where fair international competition and cross-border activity are vital. But divergence elsewhere does not mean the EU needs to follow, instead we need to consider the benefits for resilience of the standards agreed to, and how the EU can preserve them while remaining alert to the impact of differences in implementation for market integration and competitiveness.

Much of the debate on competitiveness focuses on individual Basel standards. Yet for many institutions it is the cumulative impact of multiple overlapping requirements that can be more significant than any individual Basel standard in isolation.

While the EU established a robust baseline of resilience, the prudential framework also became more complex due to the interaction of Pillar 1, Pillar 2, macroprudential buffers, MREL/TLAC requirements and national measures. Each serves a legitimate goal, but together can create unnecessary complexity for banks, supervisors, and investors. The EBA outlined several options for simplifying the capital stack in its recent report. This report represents an important milestone in the EBA's broader simplification agenda. It provides a foundation for further work through 2026 alongside the ongoing implementation of Basel III.

Given this, simplifying how these different prudential elements interact may bring greater benefits for competitiveness than revisiting specific Basel elements. We can build on this kind of holistic analysis, increasingly assessing requirements in aggregate to create an efficient framework which retains its effectiveness without reducing resilience.

Ultimately, the EU's comparative advantage has always relied on combining strong regulation with a consistent, rules-based framework. The question is not choosing between resilience and competitiveness. It is how to simplify an increasingly complex framework while preserving the credibility and financial stability that has become a competitive strength. This will keep the prudential framework proportionate, transparent and supportive of a competitive European banking sector capable of financing the green, digital, and strategic transitions of the economy.

MICHAEL THEURER
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Strong banks are competitive banks: The value of the Basel standard

Soundly capitalised banks are better banks. The evidence is clear.

European Central Bank calculations show that Basel III capital requirements have strengthened GDP growth by enabling banks to bear risk, create trust, and provide loans even in tough times. Initially, lending and thus growth could have slowed as banks adjusted to Basel III. However, the Financial Stability Board found that, while some banks did need to catch up, stronger banks stepped in, avoiding constraints to lending.

An analysis by Bundesbank furthermore examined loans by banks to non-financial counterparties and households from 2019 onwards. Loans by banks with higher CET1 ratios prior to the outbreak of the COVID-19 pandemic and the subsequent crises rose more sharply than those by banks with lower levels of capitalisation. All indications point in the same direction: capital does not seem to be a barrier to lending, but an essential foundation.

Likewise, higher levels of capital do not hamper banks' efficiency. Bundesbank and ECB research has found no evidence that higher capital requirements curtail profitability. On the contrary, the researchers found that higher levels of capital lower both interest rate expenses and the volatility of earnings. This allows banks to reduce their funding premia, which drives up profitability.

Banking regulation has stabilized the sector, rebuilt confidence, reduced taxpayer risks and ensured more reliable lending. However, the framework, shaped by decades of negotiations, lacks full coherence. We at the Bundesbank have presented a proposal for simplifying capital and resolution requirements. We want to merge the various buffers where it makes sense to do so. It should be clear which buffers serve which purpose, so that they are actually available when they are needed.

Of course, beyond the proposals for simplifying the capital framework, other ideas are also under discussion. One such idea is the use of what are known as "waivers". This would mean that certain capital and liquidity requirements would no longer need to be applied to individual subsidiaries, but only to banking groups as a whole. That would make capital and liquidity planning easier for banks operating across borders and could also free up financial resources. In return, however, safeguards would be needed to ensure that the countries in which the subsidiaries are based are not overburdened.

The aim of these waivers is to advance the integration of the European banking market. Strengthening Europe's single market for banking would promote competition and create opportunities for growth and employment. There is indeed ground to make up here — and it is a good thing that market integration will be deepened.

The evidence is clear: Soundly capitalised banks are better banks.

However, we must not lose sight of proportionality. Measures to deepen market integration tend to benefit larger banks. Smaller banks already face higher regulatory costs relative to their balance sheet totals compared to large banks. They have fewer customers across whom they can spread the costs of regulation. If, in this discussion, we focus solely on European market integration and, in that context, on issues such as waivers, we will fail to give sufficient recognition to the important role that small and medium-sized banks play in financing small and medium-sized enterprises.

We need a diverse and efficient banking market that can offer tailored financing solutions to an equally diverse economy. That is why, when simplifying our regulatory framework, we must also focus on smaller banks so that we can create favourable conditions for banks of all sizes. A separate regime for smaller banks could be a suitable option.

Lastly, we must acknowledge the elephant in the room – European capital markets.

As Enrico Letta recently pointed out in the "Financial Times": "The EU accounts for around 18 percent of global GDP, against about 25 per cent for the US. But in equity markets the gap is a yawning one. US companies make up more than 60 per cent of the world's investable equity; European companies account for only around 10 per cent." This is costing Europe dearly in terms of productivity and societal welfare. And it also represents a huge missed opportunity for banks. In fact, differences in fees and additional non-interest income, i.e. capital market-based income, can explain a substantial portion of the gap in profitability between large European and US banks. A fully fledged capital markets union is the only way forward here.

Europeans deserve stable banks they can trust and a common capital market that lets them put their savings to the most productive use possible. The coming months will offer a meaningful opportunity for making progress. We must not squander it.

MANDY DEFILIPPO

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Reimagining EU bank regulation for today's global future

The US Basel Endgame debate, the UK's growth and competitiveness agenda, and the EU's Competitiveness Report all point to the same conclusion: in today's global environment, approaches to banking and markets regulation have changed. Past agreements are being reimagined. Regulation needs to do "double duty" preserving safety and soundness while also promoting competition across borders.

Against this backdrop, the Basel framework risks evolving from a push towards common regulatory standards into a source of fragmentation. For internationally active banks, this is challenging. Fragmentation means less efficient use of capital, greater operational complexity and higher costs, affecting the real economy.

While some divergences reflect political choices in policy design, jurisdictions remain committed to the core objective of ensuring financial resilience. Additionally, in several areas — including SA-CCR — authorities are addressing common concerns, albeit independently. This signals that jurisdictions are not dismantling the global framework en masse and underscores the Basel Committee's continued role in promoting coordination and convergence.

The priority now should be to identify areas for coordinated recalibration in light of implementation experiences, while preserving the original policy objectives. FRTB is a clear candidate for such a coordinated re-assessment to identify common adjustments. Similarly, standards related to crypto assets need urgent reconsideration. Discussions on this are already under way, but they need to accelerate quickly, given the pace of change in this area.

In the EU, these global considerations are amplified by ongoing discussions on jurisdiction-specific complexities. Banks do not experience Basel in isolation but rather operate within a broader framework of supervisory, reporting and regulatory requirements. If improperly calibrated, these requirements can cumulatively constrain banks' capacity to support growth. That is why EU policymakers should treat banking competitiveness as a strategic priority in regulation and remove constraints that prevent banks from deploying capital efficiently across the Single Market.

We welcome the European Commission's commitment to explore all options to deliver regulatory reforms that create an operating environment more conducive to cross-border competition. If the EU wants a competitive banking industry, it needs a competitive banking framework. This requires simplification beyond improving individual rules. The broader challenge is cumulative complexity: overlapping rules create duplicative requirements, trap capital and reduce banks' ability to finance growth and innovation.

A new approach is required if the EU's objective for a competitive banking sector is to be realized.

This also requires a shift in regulatory culture away from a zero-risk tolerance mindset. Resilience remains essential, but excessive risk aversion can reduce banks' ability to finance the real economy, support growth and compete internationally.

Targeted recalibration should focus on areas where EU rules are clearly conservative relative to the underlying risk. Trade finance is a good example: despite facilitating more than 90% of global trade and exhibiting historical default rates of just 0.14%, it continues to attract a capital treatment that is more conservative than the risk profile warrants, particularly compared with regimes such as the US and the UK.

In parallel, continued efforts to strengthen supervisory accountability are fundamental. How requirements are implemented can be as consequential as the rules themselves. Gold-plating, extensive reporting obligations, and a supervisory culture that is tilted towards non-materiality can hinder competitiveness.

It is also necessary to ensure that regulatory obligations are set through transparent rulemaking rather than the accumulation of supervisory opinions, and that supervisory guidance does not reintroduce requirements that have been removed through a clear political mandate.

It is important to note that pro-competition policy does not equal protectionism. Competitiveness depends on maintaining an open and well-functioning market in which both European and international institutions can serve clients effectively. This is not a zero-sum game: unnecessary barriers that limit international banks' ability to operate in the EU reduce competition, restrict client choice and increase costs for European businesses and consumers.

As the Commission prepares the legislative package to update the EU's banking framework, it has an opportunity to foster a more balanced regulatory approach that supports growth and competitiveness without compromising resilience. This matters as strengthening the operating environment in the EU is the most effective way to advance the EU's strategic autonomy.

At Standard Chartered, we welcome the European banking competitiveness agenda and stand ready to contribute to the debate drawing on our experience operating across jurisdictions, regulatory regimes and trade corridors that connect Europe with high-growth markets.

HIROSHI IBARAKI

Head of EMEA & Chief Executive Officer – SMBC Bank International plc

Fragmentations: internal EU barriers are more urgent than deviating from Basel

Europe and Japan have a shared interest in promoting and preserving a resilient banking system underpinned by credible international prudential standards. Basel III gave banks and supervisors a common basis for assessing risk after the financial crisis. That basis remains important, even as implementation of the final reforms follows different paths across major markets. While recent trends point to fragmentation in the global baseline, the issue is not so straightforward. Recent BIS and ECB studies suggest that simple comparisons based on capital levels can be difficult. A headline capital ratio does not capture differences in risk-weighted assets, firm-specific requirements, macroprudential buffers or local banking market structures, nor does it fully capture risk.

Indeed, where standards appear insufficiently risk-sensitive, it is reasonable to re-examine them. This is particularly relevant for exposures such as unrated corporates, trade finance, project finance and specialised lending, which matter for Europe's investment needs but may not always be captured well by broad risk categories. Many European corporates also do not carry external ratings, even where their credit quality is sound. However, any review should take place at international level within the Basel Committee, supported by sound data and careful analysis, rather than through separate jurisdictional adjustments that fragment the global baseline.

As a Japanese-headquartered G-SIB operating across diverse jurisdictions, consistency in regulation supports planning, capital allocation and risk management. Basel alignment therefore remains a practical concern, not only a regulatory principle. At the same time, Europe has built a strong and resilient banking framework, with solid capital and liquidity outcomes across the system. That remains a strength for the European market. The challenge for banks and regulators is to preserve a global baseline and competitiveness at the same time so it caters to the financing needs of the real economy. Upcoming banking reforms should have the ambition to fix this issue to make sure competitiveness is aimed at funding the real economy.

Comparability on capital requirements is only part of the competitiveness debate.

In the current geopolitical landscape, the EU (as well as Japan) has important financing needs that need private capital: defence, technology, infrastructure and energy transition, which all require more sustainable private finance over time. While the EU should keep its efforts to deepen its capital markets and encourage investments through pension reforms, bank lending will remain a key component, especially for companies that do not issue regularly in capital markets. While EU-based banks will play a leading role to meet those needs and serve the EU retail market, the EUR 800 billion a year funding gap identified by Mario Draghi implies that non-EU investment will also be needed. International banks can contribute by providing balance sheet capacity, sector knowledge and links to investors outside the EU, especially from established allies and aligned jurisdictions like Japan.

In order for international banks to contribute to the financial needs in the EU, other factors, in addition to the comparability on capital requirements, should be considered as part of the competitiveness debate. In particular, the EU still has some key internal barriers that prevent it from being considered a truly unified jurisdiction. The Single Rulebook and Banking Union have improved consistency, but cross-border groups can still face limits on scale and capital allocation. Harmonising and simplifying divergences in supervisory expectations, macroprudential measures, and resolution requirements would offer more stable, even if more complicated to achieve, solutions to solidify the banking landscape. Ultimately, the goal is to create an environment, even beyond strict prudential requirements, that allow credit institutions to connect with and fund the real economy of the EU, removing the actual bottlenecks and frictions. This course of action benefits global institutions like SMBC and EU-headquartered banks alike. For third-country banks, removing these frictions gives more clarity on group requirements across jurisdictions. For European banks, they can enhance the benefits of the Single Market, expanding the client base within the EU.

Europe and Japan both benefit from open markets, resilient banks and predictable rules. The goal should be to maintain an international level-playing field while pursuing reforms that support the financing needs of the real economy.

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Banking sector competitiveness: let's be practical, not political

Basel III was designed after the global financial crisis to rebuild bank resilience and restore trust. That objective remains fully valid. But Europe now faces a very be different environment: weaker growth, heightened geopolitical tensions, and unprecedented investment needs in energy, defence, digital infrastructure, industrial transformation and climate transition. Estimates point to annual strategic investment needs of around €1.2–1.4 trillion.

In this context, bank competitiveness is not an end in itself; it is a condition for Europe's competitiveness. Unlike the US, Europe remains largely bank financed, with banks providing around 70–80% of corporate financing. **Capital is therefore not a narrow technical issue: it is a strategic resource for the real economy.** Every euro of capital immobilised by overlapping requirements, excessive conservatism or poorly calibrated rules is a euro that cannot support defence suppliers, grids, SMEs, infrastructure, housing, trade or industrial innovation.

The challenge is not Basel III as such, but the cumulative effect of its European implementation. Jurisdictions apply common standards through different economic models, supervisory practices and political choices. Europe combines Pillar 1, Pillar 2 requirements and guidance, macroprudential buffers, MREL/TLAC, model approvals, supervisory overlays and local capital or liquidity constraints. Each layer may be justified in isolation, but together they create double counting and inflate capital needs beyond actual risk.

The figures are significant. European banks hold around €600 billion more capital than in 2006. **In corporate lending, capital held by some banks can represent 40 to 50 years of actual annual cost of risk.** EBF/GARP estimates suggest that supervisory and modelling add-ons for the top 15 banks exceed €100 billion, potentially freezing up to €1.5 trillion financing capacity. Removing certain model overlays for European G-SIBs could alone unlock around €420 billion. This is not an argument against resilience, but for evidence-based proportionality.

The way forward is not deregulation, but disciplined recalibration.

Targeted action is therefore justified where capital is clearly excessive relative to risk. This includes trade finance, unrated corporates, infrastructure and project finance:

- Trade finance, which is short-term, self-liquidating and historically low-risk, is penalised by blunt standardised treatment reducing access to a critical enabler of EU trade, particularly for SMEs.
- 75% of the European corporates are unrated, not because they are risky, but because of Europe's market structure. Treating the absence of an external rating as high risk, even though banks have internal credit data, would penalise SMEs, mid-caps and the real economy.
- Infrastructure and project finance, essential for energy, digital, defence and critical assets, can also be burdened by standardised treatments and modelling constraints that fail to reflect actual risk. Modelling constraints for low-default portfolios, floors, and certain standardized calibrations can compress risk granularity and make financing more costly.

Action is even more necessary where capital rules may increase risk rather than reduce it:

- Software deductions are a clear example: capital does not prevent cyber-attacks; technology investment does. Penalising IT investment weakens resilience.
- SA-CCR, or Standardized Approach for Counterparty Credit Risk, raises a similar issue. For unmargined end-user portfolios, AFME/ISDA analysis shows exposures can be far higher than under the previous Internal Model Method (IMM) or Current Exposure Method (CEM), even where the underlying economic risk has not changed. If Europe keeps a more punitive approach, hedging becomes more expensive, SMEs and mid-caps may hedge less, and risk migrate from banks to the real economy.

The European Commission is right to open this debate. The solution is not deregulation, nor offsetting targeted relief with new capital elsewhere. **It is a practical review of specific and independent areas where requirements are disproportionate to risk,** together with simplification of EU-specific constraints such as overlapping Pillar 2 guidance, MREL interactions and national fragmentation.

Basel divergence is not a problem because Europe wants weaker rules. It is a problem if Europe applies to global standards in a way that ignores its financing model, strategic investment needs and competitors' choices. Resilience remains non-negotiable. But resilience without growth becomes stagnation. Europe must preserve strong banks — and allow them to finance a stronger Europe.

The way forward is not deregulation, but disciplined recalibration: capital should remain strong, risk-based and credible. The test should be practical: whether the framework allows banks to deploy capital at speed towards Europe's strategic priorities, from defence and energy to SMEs, infrastructure, innovation and resilience.