

7. BASEL UNDER SIEGE. IS THE END IN SIGHT FOR GLOBAL COOPERATION ON FINANCIAL RULES?

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1. OVERVIEW

U.S. President Donald Trump has blown up global rules-based trade¹, ordered his country to exit the World Health Organisation², and flirted with pulling back from the International Monetary Fund³, all since retaking office in 2025. He has – twice – withdrawn the U.S. from the U.N.-sponsored Paris Agreement, a binding international treaty to fight climate change, and in his first term he ended Washington’s support for a 2015 nuclear deal with Iran.

Are international banking rules next? And if the U.S. pulls back from the next phase of the Basel capital standards, does this put paid to the idea of a level playing field for global financial institutions? Probably not. With this administration, nothing is certain, but the slow timeline and technical nature of international financial architecture are well suited to withstand political pressure. Financial stability is essential for every economic agenda. There is little upside to make banking riskier again.

Bank capital standard-setting is usually referred to the Basel process, after the city in Switzerland that houses the international bodies dedicated to global cooperation on these topics. The Basel Committee on Banking Supervision, founded in the 1970s, is the panel of finance ministers and central bankers that hammers out the global framework for how banks should assess risks and manage their ratio of assets to liabilities. The committee has a home base as part of the Bank for International Settlements, a collaboration center for monetary authorities that collects data and offers technical

¹ Barata de Rocha, M., Boivin N. and Poitiers N, “The economic impact of Trump’s tariffs on Europe: an initial assessment”, Bruegel analysis 17 Apr. 2025, available at

<https://www.bruegel.org/analysis/economic-impact-trumps-tariffs-europe-initial-assessment>

² White House press release, 20 Jan 2025, available at <https://www.whitehouse.gov/presidential-actions/2025/01/withdrawing-the-united-states-from-the-worldhealth-organization/>

³ Lynch, D., “Trump administration says IMF, World Bank ‘falling short’ of missions”, Washington Post, 23 Apr. 2025, available at

<https://www.washingtonpost.com/business/2025/04/23/bessent-world-bank-imf-treasury/>

advice. It also works alongside the Financial Stability Board, an independent panel set up by the G-20 to make sure the major financial centres will all be sitting around the same table whenever a crisis hits. All three bodies have a goal of coordinating so that neither “home” countries, where big banks are headquartered, nor “host” countries, where the banks do cross-border business, are subject to economy-flattening outflows when trouble strikes.

Bank capital itself does not move in lockstep with the agreed rules. In 2014, for example, the EU became the only major jurisdiction to be deemed non-compliant with the Basel process⁴. Furthermore, market forces often encourage banks to hold more than the minimum, regardless of jurisdiction. In November 2024, the U.S. Federal Reserve reported that “most banks” held capital well above regulatory requirements, and that 99% of banks were well capitalized⁵. The European Central Bank said that “on average”, banks kept their capital and liquidity positions well above regulatory requirements in 2024.⁶ The European Banking Authority notes that most banks keep a “management buffer” above regulatory levels, although this kind of reserve is often not clearly defined by the banks in question.⁷

In broad terms, EU and U.S. capital requirements for big banks are roughly equivalent, as noted by Bruegel researchers and by Claudia Buch, head of the ECB’s Single Supervisory Mechanism.⁸

Nonetheless, European lenders have been arguing for the EU to move slowly on the next round of Basel rules because of fears that U.S. deregulation will somehow put them at a disadvantage, even as U.S. bankers call for regulators to ease off so they will not be outdone their European peers. In the same way that realtors often claim there has never been a better time to buy or sell your house, bankers can be counted on to make a case for lowering capital standards.

In 2025, the transatlantic hand-wringing is mostly about who will move first to adopt the latest round of global bank capital standards, currently dubbed the Basel endgame. The U.K. has decided to delay one major element of the new rules, the intimidatingly

⁴ Basel Committee press release, “Assessment of Basel capital regulations in the European Union concluded by the Basel Committee” 5 December 2014, available at <https://www.bis.org/press/p141205.htm>

⁵ Federal Reserve Supervision and Regulation Report, November 2024, <https://www.federalreserve.gov/publications/2024-november-supervision-and-regulation-report-banking-system-conditions.htm>

⁶ European Central Bank, ECB keeps capital requirements broadly steady for 2025, reflecting strong bank performance amid heightened geopolitical risks, 17 Dec. 2024, available at <https://www.bankingsupervision.europa.eu/press/pr/date/2024/html/ssm.pr241217~8ca7d1d44e.en.html>

⁷ European Banking Authority, “Stacking orders and capital buffers: Reflections on management buffer practices in the EU,” 15 July 2024, available at <https://www.eba.europa.eu/sites/default/files/2024-07/3f548b65-873a-4f0d-ab5a-094cd18dec33/Report%20on%20stacking%20orders%20and%20capital%20buffers.pdf>

⁸ Mejino-López J. and N. Véron (2025) ‘EU Banking Sector & Competitiveness’, In-depth Analysis/ Study, European Parliament, available at [https://www.europarl.europa.eu/thinktank/en/document/ECTI_STU\(2025\)764188](https://www.europarl.europa.eu/thinktank/en/document/ECTI_STU(2025)764188) and Buch, Claudia, ‘Letter to MEP Mr Heinaluoma’, available at https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter241028_Heinaluoma-25885c19ec.en.pdf

named Fundamental Review of the Trading Book, until 2027⁹. The EU, after already postponing this aspect of the new rules to 2026, is now considering further delays.¹⁰ On the surface this sounds like it could be a daunting setback. But given that these rules were first proposed in 2013, the extra time is merely one more bend in a long, windy road. Because the new rules are so complex, getting them calibrated is more important than putting them in place on a strict schedule.

Europe may pose the bigger risk to financial stability if the new rules do not go through, because of differences in how the U.S. and the EU regulate their megabanks, the ones most likely to cause cross-border turmoil. We have been here before: in 2009, Posen and Véron predicted that a number of European banks would be insolvent and require state support¹¹, even as stress tests at the time predicted what would turn out to be implausible levels of resilience¹². It was easier for supervisors to look the other way and to protect their national champions rather than face up to the losses ahead, as surfaced in the failures of Dexia, Fortis, Bankia, Anglo Irish and others.

The European Commission now acknowledges that the euro debt crisis wreaked havoc on banks across the monetary union, in part because capital requirements did not require strong enough buffers¹³. Europe has often sought to defend its policy by citing strong capitalisation in small and medium-sized banks, and by making the case that European lending models are less inherently risky. Yet these smaller banks are not the ones that face competition from across the Atlantic, nor are they the ones judged globally significant.

The U.S., in contrast, has generally kept its standards higher¹⁴. Its banks are more likely to complain about “gold-plating”, or going beyond the Basel requirements, than

⁹ UK Prudential Regulation Authority, announcement of Basel 3 implementation delay, 17 Jan. 2025, available at <https://www.bankofengland.co.uk/news/2025/january/the-pra-announces-a-delay-to-the-implementation-of-basel-3-1>

¹⁰ European Commission, announcement of consultation on market risk rules for banks, 25 March 2025, available at https://finance.ec.europa.eu/news/commission-launches-consultation-eu-approach-market-risk-rules-banks-2025-03-24_en

¹¹ Posen, A. and Véron, N., “A Solution For Europe’s Banking Problem”, European Parliament Study, June 2009, available at <https://www.bruegel.org/policy-brief/solution-europes-banking-problem>

¹² Committee of European Bank Supervisors, “CEBS’s press release on the results of the eu-wide stress testing exercise,” 1 Oct. 2009, available at <https://www.eba.europa.eu/sites/default/files/documents/10180/15977/01df9de6-acc8-4b8f-ac72-849d96087795/CEBS-2009-180-Annex-2-%28Press-release-from-CEBS%29.pdf>

¹³ “The financial crisis has unveiled a number of shortcomings of Basel II and necessitated unprecedented levels of public support in order to restore confidence and stability in the financial system. In particular the following drawbacks of the existing framework were identified: capital that was actually not loss-absorbing, failing liquidity management, inadequate group wide risk management and insufficient governance.” European Commission memo on CRD IV/CRR, July 2013, available at https://ec.europa.eu/commission/presscorner/detail/en/memo_13_690

¹⁴ See Berg, J., Boivin, N. and Geeroms H, “The quickly fading memory of why and when bank capital is important,” available at https://www.bruegel.org/sites/default/files/2025-04/WP%2004%202025_1.pdf

current level.¹⁵ To the extent that Trump does decide to ease off on American lenders, it may be to roll back Biden-era proposals that would go beyond the Basel standards.

That said, there are strong incentives for the U.S. to implement further reforms in some way: if the U.S. does not act at all, Europe might also pause its upgrades, to the detriment of euro-area welfare. Industry stakeholders¹⁶ and some U.S. authorities, such as Fed Chairman Jerome Powell,¹⁷ thus tend to favor a “capital-neutral” version of the U.S. proposal, that would keep the global system intact without much change to how American lenders operate.

The U.S. has no incentive to drop out of either the Basel system of international authorities or the bank oversight rules they produce. The Fed is a capital-contributing shareholder of the BIS, which is entirely run by central banks and which they use to conduct transactions with each other. Meanwhile the Basel Committee and the FSB are not treaty-based organisations. They are committees that make recommendations. Participating countries have total control over how they adopt the international standards. Yes, the Fed did withdraw from the Network for Greening the Financial System¹⁸, another panel of financial authorities, a few days before Trump took up his second term. But that group dates only to 2017, has direct ties to the Paris Agreement on climate, and focuses on issues at some remove from the core central bank issues of setting interest rates and overseeing bank safety. The Fed at least has a clear incentive to draw a line between political issues like how to combat global warming and its main operational lines, even if other central bankers choose to plan differently.

Financial policymaking tends to be insulated from broader political standoffs because it is so arcane and technical. This policy silo can be helpful when reaching some types of consensus, but damaging when it comes to pushing through policies like deposit insurance that require broader political signoff. This paper aims to demystify the international institutions and processes that set global banking standards, in hopes of breaking down those walls and including a wider range of voices in the discussion.

¹⁵ SIFMA, “The Federal Reserve Should Remove “Gold-Plating” in the Basel III Endgame,” 8 Nov 2023, available at <https://www.sifma.org/resources/news/blog/the-federal-reserve-should-remove-gold-plating-in-the-basel-3-endgame/>

¹⁶ SIFMA, “Our take on PWC’s assessment of the Basel III endgame”, 24 June 2024, available at <https://www.sifma.org/resources/news/blog/our-take-on-pwcs-assessment-of-the-us-basel-iii-endgame-proposal/>

¹⁷ For example see comments by Federal Reserve Chairman Jerome Powell to the Senate Banking Committee, as reported in the ABA Banking Journal: When questioned whether the revised proposal would take a “neutral approach” to capital, Powell said “that is a good starting place.” “I’ve said many times in this committee that I think that I think that the level of capital in the largest banks is about right, and it’ll shake out somewhere in that area,” he said. American Bankers Association, 11 Feb. 2025, available at <https://bankingjournal.aba.com/2025/02/feds-powell-pressed-on-regulatory-gaps-amid-cfpb-hiatus/>

¹⁸ The Network of Central Banks and Supervisors for Greening the Financial System, as it is formally called, includes 160 members and observers. Even after the Fed’s departure, as of mid-2025 the group still includes the U.S. Federal Housing Finance Administration and New York’s Department of Financial Services. <https://www.ngfs.net/en/about-us/membership>

2. THE WORLD'S BANKING CLUBS

To understand why the U.S. participation in international bank standard-setting differs from its approach to other international institutions, it is worth revisiting which bodies matter and how they came to be.

Three institutions sit at the heart of global financial cooperation: the Bank for International Settlements and the two committees it hosts, the Basel Committee on Banking Supervision and the Financial Stability Board. All are housed in Basel, Switzerland, where these overlapping networks of information sharing, standard-setting and policy-making anchor the global banking architecture. But they each have their own separate membership and governance structure.

The BIS is wholly a project of central banks and monetary authorities. It has its own capital, its own staff and a broad global mandate to collect data, foster cooperation and offer technical assistance. The Basel Committee is group of central banks and also bank supervisors, from a smaller but still large set of countries. It produces consensus-based agreements that participants are supposed to implement over time. Finally the Financial Stability Board is a consensus-based group of authorities from the world's major financial centers that aims to monitor market developments, define best practices and coordinate crisis-fighting efforts. It reports regularly to the G-20 and does not make binding recommendations.

In the context of U.S.-EU cooperation, each has a valuable role to play. Yet one of the difficulties for outsiders is keeping these various bodies straight and remembering what they are for. Their evolution shows how a global financial system emerged through the testing grounds of two world wars, the Great Depression, and the rise and fall of the Bretton Woods currency system, expanding to include more and more countries along the way. Yet the Basel Committee and the FSB are not based on treaties and their recommendations are not strictly binding.

BANK FOR INTERNATIONAL SETTLEMENTS

BIS itself was founded in January, 1930, following a convention signed by Switzerland in cooperation with the governments of Belgium, France, Germany, Italy, Japan and the U.K., as a way to coordinate reparations set up after the first World War¹⁹. The bank was set up as an international organization and as a company owned by shareholding member banks. Its two assignments were to collect payments and to foster central bank cooperation. While that first mission was quickly overtaken (reparations payments were soon cancelled as the gold exchange standard collapsed during the Great Depression), the second task has proven its worth repeatedly over the subsequent nine decades.

By the end of 1931, membership had grown to 24 European central banks, with

¹⁹ BIS history and timelines available on the bank's website, here: https://www.bis.org/about/history_1foundation.htm

Japan and the U.S. represented by private sector banking groups until the 1960s. There were a number of threats to its survival – for example, leading up to World War II the BIS attempted to remain neutral, but its decision to continue transactions with Germany’s Reichsbank led the Washington to block U.S.-held BIS assets until after World War II. In 1944, the Bretton Woods Conference voted to dissolve the BIS, but it hung on. Central bankers resumed meeting there in 1946, and in 1948 reached agreement on war reparations and on the BIS’s continued existence.

BIS helped European countries settle trade balances during the 1950s, then took on a broader global coordination role during the Bretton Woods years. In the late 1960s, its shareholders began expanding beyond countries involved in German reparations, and in the 1990s it reached out to emerging-market central banks as well. It played a key role in helping EU banks coordinate their exchange rates in the runup to the euro.

As of 2024, 63 central banks and monetary authorities hold BIS capital and voting rights.²⁰ The BIS itself has more than 600 staff from more than 60 countries, with satellite offices in Mexico City and Hong Kong as well as a quartet of “innovation hubs” to help with financial infrastructure development. The institution divides its work into four broad categories: economic analysis, banking, technology and general internal coordination. It also serves as banker to its central bank members, helping with gold sales and other currency coordination moves, and hosts a range of committees and working groups.

From early on, the BIS began collecting financial and banking statistics while offering research and insights to its members and more broadly. These data have proven essential to understanding how cross-border banking crises work and how capital moves around the world.²¹ BIS works with national central banks and data collection authorities to put together publicly available data sets on credit, global liquidity, derivatives, exchange rates and other financial information.

BASEL COMMITTEE

In the 1970s, this coordination role took shape in the form of the BIS Basel Committee for Banking Supervision, formed in response to a period of global banking and exchange-rate turmoil. It became evident that plumbing delays in settling international payment flows could be catastrophic, as shown by the failure of Germany’s Bankhaus Herstatt, which speculated heavily in foreign exchange markets and proved unable to

²⁰ Bank for International Settlements 2023-2024 annual report, available at <https://www.bis.org/about/areport/areport2024.pdf>

²¹ See for example this Federal Reserve Bank of New York study, which used BIS data to show that capital outflows from the late 1990s Asian financial crisis did not primarily flee to U.S. markets but instead were split roughly half and half between offshore center banks and banks with a nationality other than the U.S., a European country or Japan. Van Wincoop, E. and Kei-Mu Yi, “Asia Crisis Postmortem: Where Did the Money Go and Did the United States Benefit?”, Federal Reserve Bank of New York Economic Policy Review, September 2000 Volume 6, Number 3, available at <https://www.newyorkfed.org/research/epr/00v06n3/0009vanw.html>

close its transactions²². This in turn caused a 24-hour shutdown of U.S. payment infrastructure and spilled over onto other financial institutions.

The 10 major central banks that founded the Basel committee, initially known as the Committee on Banking Regulations and Supervisory Practices, wanted to make sure no bank evaded supervision and to make sure home and host regulators worked together to prevent problems. This process began with a “Concordat” in 1975²³ on oversight of foreign branches and other cross-border operations, evolving in subsequent decades into various principles for cross-border banking.

As supervisory coordination became more established, emphasis grew on making sure banks had enough capital, leading to the series of agreements known broadly as the Basel standards. The committee itself has grown to 45 members, comprising central banks and bank supervisors from 28 jurisdictions. As a BIS committee, it has a secretariat at the headquarters, in Basel, and holds its meetings there.

FINANCIAL STABILITY BOARD

The Financial Stability Board is fully independent of BIS, even though its secretariat is hosted there. It is a more modern invention, growing not from the World Wars or the 1970s stagflation years but out of the turn-of-the-Millennium hot money era. The Group of Seven major economies started out in 1999 with the Financial Stability Forum, the brainchild of then-Bundesbank President Hans Tietmeyer. The idea was to augment existing international fora so that authorities could identify vulnerabilities earlier in the cycle, improve information exchange and coordinate best practices²⁴.

In 2009, amid the Global Financial Crisis, the G-7 upgraded the group into the Financial Stability Board, expanding its membership beyond the G-7 and including a wide range of financial authorities and international institutions within its auspices. The group now includes the G-20 group of major and developing nations, along with authorities from the financial centers of Hong Kong, Singapore, Spain and Switzerland. It also has regional groups that seek input from around 70 countries and jurisdictions.

The FSB’s main goal is to make sure all the major players are sitting around the same table if and as a financial crisis arises. It explicitly has no treaty and makes no binding recommendations.²⁵ The group reports regularly to the G-20, which generally endorses its policy agenda, but because of its wider membership and specific focus it works inde-

²² “More Than Thirty Years After The “Herstatt” Case, Foreign Exchange Settlement Risk Is Still An Issue,” ECB Financial Stability Review December 2007, available at https://www.ecb.europa.eu/press/financial-stability-publications/fsr/focus/2007/pdf/ecb-ccda416def.fsrbox200712_19.pdf

²³ Initially confidential, the full text of this agreement is available on the BIS website, along with other archival agreements among participating central banks over the course of the Basel Committee’s evolution.

²⁴ Andresen, Svein, “The Financial Stability Forum,” CESifo Forum 4 / 2000, available at <https://www.ifo.de/DocDL/Forum400-focus3.pdf>

²⁵ Financial Stability Board, “The Work of the FSB”, available at <https://www.fsb.org/work-of-the-fsb/>

pendently of the G-20 cycle, and it does set international standards and other policies that its members agree to implement.

3. THE BASEL CAPITAL-RULES JOURNEY

Basel capital standards are set out in various committee agreements that have been sorted into rounds. So far there have been three, with the industry already talking about the prospect of Basel IV as a way to frame what might come next.

BASEL I

The original “Basle Accord” was agreed in 1988, after the Latin American debt crisis led authorities to worry that international risks were growing while bank set-asides were declining²⁶. The deal called for a minimum ratio capital to risk-weighted assets of 8% to be implemented by the end of 1992. Within a year, the Basel Committee issued a statement that G-10 country banks with cross-border operations were meeting the minimum requirements, and the framework was adopted by virtually all countries with active international banks.²⁷

Over time, the framework evolved to include market risk and other kinds of risk as well as credit risk, the risk of default, which was at the center of the first iteration. In 1996, the Committee adopted an amendment that paved the way for banks to use value-at-risk models to internally gauge their exposure to market fluctuations. This process, designed in collaboration with securities regulators, covered trading in foreign exchange, bond trading, equities, commodities, options and other market segments.

BASEL II

In 1999, the committee started work on a new round of capital standards, agreed in 2004. This revised framework expanded the reach of the oversight framework and took shape in three pillars:

- minimum capital requirements
- supervisory review of capital adequacy and internal models
- the role of disclosure in encouraging market discipline and sound banking practices

These changes aimed to keep up with financial innovation and also acknowledge the role of investor confidence in encouraging firms to stay healthy. “Market discipline” happens when a firm loses money because investors are not happy with how it is manag-

²⁶ BIS, History of the Basel Committee, available at <https://www.bis.org/bcbs/history.htm?m=84>

²⁷ History of the Basel Committee

ing. It is not something regulators impose, but it is something regulators can facilitate by making sure market actors have good information.

Basel II made more use of internal risk models, which led U.S. authorities to decide it should only be available, if at all, to larger and more sophisticated banks. Smaller banks were expected to stick with Basel I and the simpler 8% capital floor. Larger banks in theory could use the models, but as of 2011 had still not received the individual approvals necessary to move to the more sophisticated system²⁸.

This may have been a good thing. When unveiling capital rules updates in 2013, the European Commission said it had identified drawbacks in the Basel II framework including “capital that was actually not loss-absorbing, failing liquidity management, inadequate group wide risk management and insufficient governance.”²⁹

Some of this may be due to Europe’s implementation of the Basel II rules rather than the framework itself. An IMF point-counterpoint published in June 2008 captured the debate succinctly. Jesús Saurina, then the financial stability director for the Bank of Spain, hailed the new rules as matching capital rules more closely to the actual risk banks were taking on and accepted “a certain degree of procyclicality as inevitable.” Avinash Persaud, chairman of Intelligence Capital Limited, argued that so-called risk sensitivity models could turn price declines into systemic collapse, in a contribution titled “Sending the Herd Over the Cliff. Again.”³⁰

BASEL 2.5

Some of the Basel II changes indeed did not work out as planned. In the words of the Basel Committee, itself: “Significant weaknesses in the Basel capital framework for trading activities resulted in materially undercapitalised trading book exposures prior to the 2007–08 period of the financial crisis.”³¹

Starting in 2009, the Basel Committee began rolling out a package of updates known as Basel 2.5, aimed at refining the value-at-risk modeling. The updates, refined over the course of about two years, tried to get banks to consider how their portfolios would react to market volatility as well as in calm conditions. Main changes in this round included more stress testing when calculating risk exposures, higher capital charges for

²⁸ Dugan, J. and J. Xi, “US: Implementation Of Basel Ii: Final Rules Issued, But No Supervisory Approvals To Date,” report to the European Parliament’s Committee on Economic and Monetary Affairs, October 2011. <https://www.europarl.europa.eu/document/activities/cont/201110/20111012ATT29102/20111012ATT29102EN.pdf>

²⁹ European Commission, “Capital Requirements - CRD IV/CRR – Frequently Asked Questions”, 16 July 2013, available at: https://ec.europa.eu/commission/presscorner/detail/en/memo_13_690

³⁰ Saurina, J., “Banking on the Right Path,” and Persaud, A., “Sending the Herd Over the Cliff. Again.”

Both part of IMF Finance and Development, June 2008, available at: <https://www.imf.org/external/pubs/ft/fandd/2008/06/pdf/saurina.pdf>

³¹ Basel Committee on Banking Supervision, “Explanatory Note on the Revised Minimum Capital Requirements for Market Risk,” January 2016, https://www.bis.org/bcbps/publ/d352_note.pdf

unsecuritised credit products, and more regulatory oversight of capital charges on securitisations.³² The rules sought to prevent banks from moving troubled assets from their “banking book”, of assets they were holding, to their “trading book” of assets available for sale, and thus avoiding safeguards intended to ensure their overall health.³³

BASEL III

After the Global Financial Crisis, which saw banks and other financial institutions topple like dominoes, policymakers sought to crack down on risk-management loopholes. In 2010, global bank supervisors agreed on the outline of reforms to the capital and liquidity management system, as well as higher capital standards for commercial banks.³⁴ This stage of Basel is sometimes referred to as Basel 3.1, Basel IV or just the Basel “endgame”, as well as by the broad Basel III umbrella.

The goal of this set of changes is broadly for banks to hold more capital, and for that capital to be better quality. While subject to criticism on all sides³⁵, it represented a big step forward and introduced concepts such as the Net Stable Funding Ratio, the Liquidity Coverage Ratio and the Countercyclical Capital Buffer, to make sure banks could stay solvent during times when liquidity might be hard to come by. It absorbed longstanding disagreements between the U.S. and the EU over how to calculate bank leverage, resulting in a mutually defined leverage ratio that would become part of the new standards. It also includes an “output floor,” a much debated effort to set a minimum level of capital that banks need to have on hand regardless of how their internal models assess risk.

The idea was that most of the Basel III changes would be phased in between 2013 and 2019³⁶. Over time, the committee elongated its timeline and sought to adapt the new rules to changing conditions. Some of the supervisory changes took longer to implement than the numerical targets for various capital ratios, and the planning horizon extends to at least 2028³⁷. As of 2025, the EU has put many of its provisions into effect but as mentioned earlier it is still holding off on when to implement the new rules on market risk, which the U.S. and UK also are delaying.

³² Basel Committee on Banking Supervision, “Revisions to the Basel II market risk framework”, available at <https://www.bis.org/publ/bcbs193.pdf>

³³ See Jan. 2016, available at https://www.bis.org/bcbs/publ/d352_note.pdf

³⁴ BIS, History of the Basel Committee

³⁵ Véron, N., “Basel III: Europe’s interest is to comply”, 18 Feb. 2013, available at <https://www.bruegel.org/blog-post/basel-iii-europes-interest-comply>

³⁶ Basel Committee on Bank Supervision, “Basel III: A global regulatory framework for more resilient banks and banking systems”, available at <https://www.bis.org/publ/bcbs189.pdf>

³⁷ Basel Committee on Banking Supervision, “Basel III transitional arrangements, 2017-2028”, available at https://www.bis.org/bcbs/basel3/b3_trans_arr_1728.pdf

The EU has said it may not finish phasing in some requirements until 2032, see https://finance.ec.europa.eu/news/latest-updates-banking-package-2023-12-14_en

4. COMPETITIVENESS IN CONTEXT

When it comes to banking, disputes over international deadlines often obscure bigger questions of how banks are managing and if they have the right conditions to support the broader economy. The process is exceptionally complicated: each jurisdiction has its own definitions for how to measure bank capital, how to assign risk weights, and how to model the effects of market dynamics. Real estate lending is especially contentious, given its importance to bank business models and its prominence in various banking crises over the years, as is lending to small and medium-sized enterprises.

The goal of these rules and agreements is to keep the financial system stable. Plumbing problems, more than market moves, do the worst damage to global economies because they disrupt the operations of the global economy via financial contagion³⁸. It is hard to distinguish winners and losers when the whole game board is overturned. The U.S. has dragged its feet when it comes to adopting the various rounds of Basel rules, but it acted quickly to shore up its financial system when the Global Financial Crisis struck. Europe, in contrast, has had periods of moving ahead with the Basel standards while dragging its feet on solving its own sovereign debt struggles. European banks have been some of the worst offenders in undercapitalising overseas subsidiaries.³⁹ Overall, Europe's choice of carveouts from the Basel framework led to particular censure from the committee itself.

In reviewing the iterations of Basel and their interpretations by various jurisdictions, it is worth noting that the EU's IRB approach has deemed "materially non-compliant" by the Basel Committee itself, a formal criticism not leveled at other jurisdictions⁴⁰. This is an embedded feature of the EU system. The U.S.'s brushes with Basel non-compliance have so far been more temporary: in April 2020, in response to the pandemic, the Fed suspended its so-called supplementary leverage ratio and fell out of step with the Basel rules⁴¹, but this move was reversed on March 31, 2021, when the temporary pause was lifted.

³⁸ Lehman Brothers is one of the best known examples of how financial contagion spreads after a sudden shock to an extent not explained by direct linkages. See Wiggins, Rosalind Z. and Metrick, Andrew (2019) "The Lehman Brothers Bankruptcy H: The Global Contagion," *Journal of Financial Crises*: Vol. 1 : Iss. 1, 172-199. Available at: <https://elischolar.library.yale.edu/journal-of-financial-crises/vol1/iss1/9>

³⁹ Barclays and Deutsche Bank both closed their U.S. holding companies after the Federal Reserve moved to increase capital requirements on foreign-owned subsidiaries; Deutsche Bank's U.S. operations were reported to hold negative capital due to highly leveraged operations. See Braithwaite, T. and S. Nasiripour, "Deutsche Bank avoids U.S. capital rules", <https://www.ft.com/content/f2d96462-738e-11e1-94ba-00144feab49a>

⁴⁰ Basel Committee on Banking Supervision, "Assessment of Basel capital regulations in the European Union concluded by the Basel Committee," 5 Dec. 2014, available at <https://www.bis.org/press/p141205.htm>

⁴¹ Véron, N., "Is the U.S. reneging on international financial standards?", Bruegel, 16 April 2020, available at <https://www.bruegel.org/blog-post/united-states-reneging-international-financial-standards> and Federal Reserve announcement, 19 March 2021, available at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210319a.htm>

One of the challenges in pitting Basel compliance regimes against each other is that each jurisdiction has its own capital “stack” based on local implementing rules. Transparency also varies: U.S. banks are required to file generally comparable quarterly call reports, while European banks face a wider range of disclosure requirements that can be less demanding, particularly for unlisted banks.

Here is one illustration of how that looks in practice⁴²: the Basel III framework sets the minimum requirements for the CET1 (common equity tier 1) risk-based capital ratio at 4.5 percent with, on top of that, a so-called capital conservation buffer at 2.5 percent, plus a countercyclical buffer under macro-prudential policy and an additional buffer for G-SIBs (BIS, 2025). In addition, the Basel framework foresees requirements from supervisory discretion, to cover additional risks not covered by the first pillar. Basel III also sets the minimum leverage ratio at 3 percent, with an added leverage buffer for globally systemic banks. In Basel parlance, minimum requirements are known as “pillar one” standards, while those that regulators control are known as “pillar two”.

The EU has adopted from Basel III the minimum CET1 requirement at 4.5 percent, the capital conservation buffer at 2.5 percent, additional buffers for systemic firms, and countercyclical buffer on a country-by-country basis, plus a “systemic risk buffer” covering any other systemic risks. Its discretionary barriers are split into binding and non-binding national guidance, with the ECB having at least theoretical powers to intervene.⁴³ Leverage ratios face a similar set of requirements and decision-making distribution.

US banks generally are required to hold a minimum CET1 ratio of 4.5 percent, Tier 1 at 6 percent, and total capital (Tier 1 and Tier 2) at 8 percent, plus capital conservation buffer at 2.5 percent. For large banks, the framework adds a “stress capital buffer” based on supervisory stress test results, plus a capital surcharge for G-SIBs which is typically larger than that recommended.⁴⁴ The Federal Reserve also has an option to apply a countercyclical buffer but has never used that option to date.

5. BUT HOW ARE THE BANKS DOING?

In the international debate over bank oversight, it is a time-honored tradition for stakeholders seeking loopholes to hone in on how somebody else’s deviations are even bigger. The EU has long been frustrated with Washington’s tendency to ignore the Basel process when it suited, while the U.S. has resented European banks for receiving

⁴² Mejino-López J. and N. Véron (2025) ‘EU Banking Sector & Competitiveness’, *In-depth Analysis/Study*, European Parliament, available at [https://www.europarl.europa.eu/thinktank/en/document/ECTI_STU\(2025\)764188](https://www.europarl.europa.eu/thinktank/en/document/ECTI_STU(2025)764188)

⁴³ Ibid.

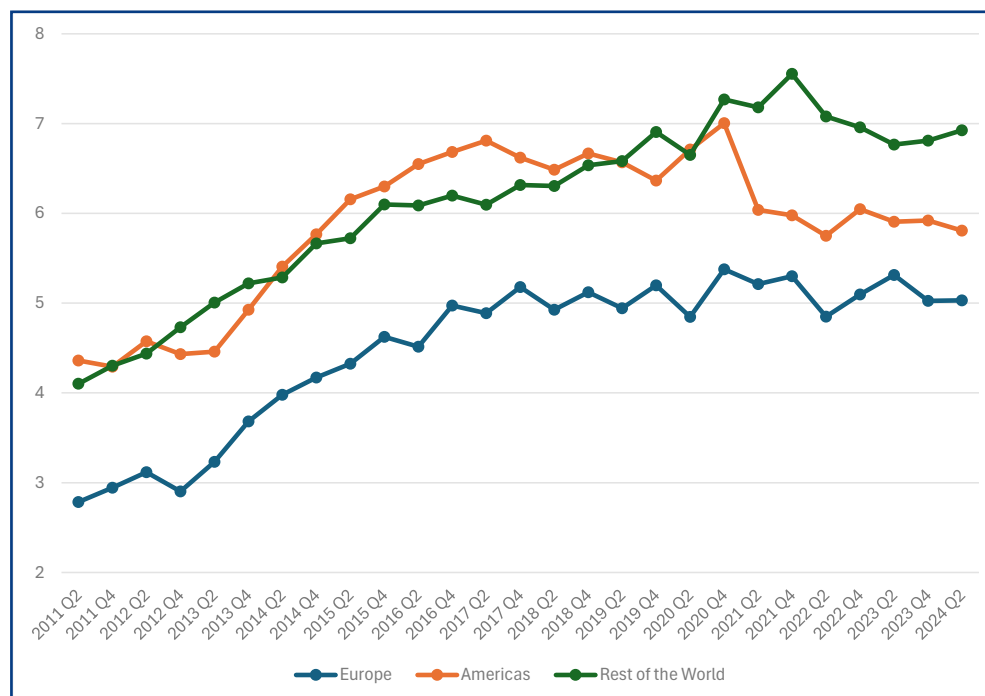
⁴⁴ Feierstein, B. and C. Donohue (2022) ‘Calculating the Regulatory Surcharge for US G-SIBs’, GARP White Paper, available at https://www.garp.org/hubfs/Whitepapers/a2r5d000004TgupAAC_RiskIntell.GBI.Whitepaper.GSIBs.8.4.22.pdf

more carveouts and possibly complying with the numerical requirements but not the spirit of sufficient high-quality capital.

Amid the push to bring in new rules and create a more level playing field, Europeans tend to warn that the U.S. could kick off a race to the bottom by watering down its Basel-related proposals, while the U.S. blasts Europe for using bespoke statistics to make its banks look safer than they really are. The Basel Committee's recent compliance reports bear out this dichotomy.

For example, BCBS (2025) found that leverage ratios – a bank's total capital divided by total assets – for large internationally active banks are lower in Europe (5.0 percent) than in the Americas (5.8 percent) and the rest of the world (6.9 percent)⁴⁵. A higher leverage ratio reflects a bank that holds more capital compared to the risks it takes on, and the Basel III process sets a floor for this metric⁴⁶.

Figure 1. Leverage ratio⁴⁷



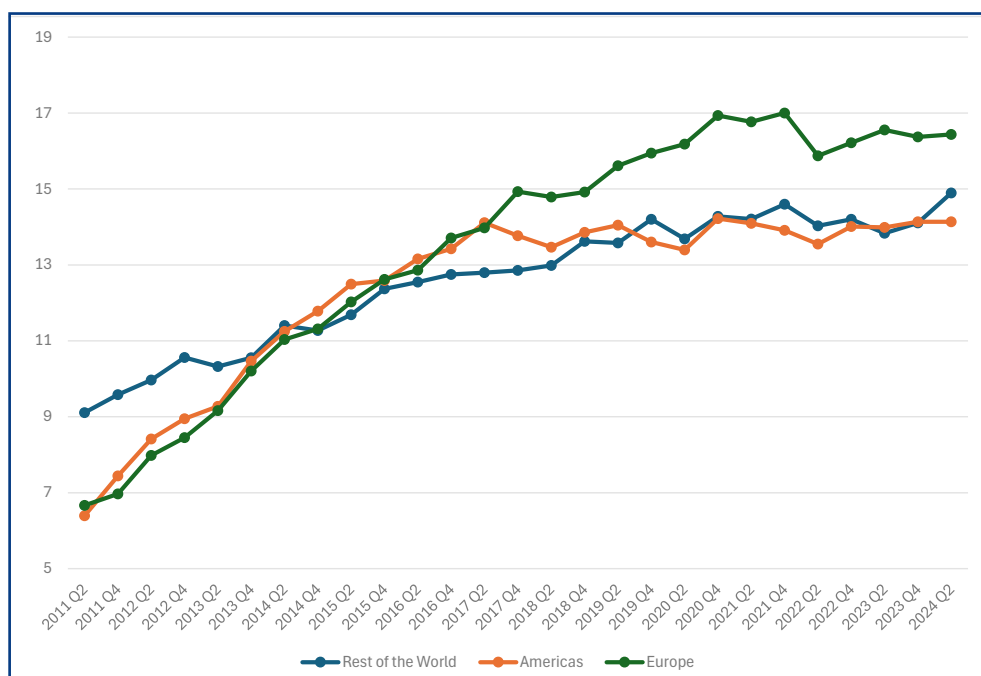
⁴⁵ Basel Committee on Banking Supervision, 2025 Basel III Monitoring Report, available at <https://www.bis.org/bcbs/publ/d592.htm>

⁴⁶ BIS, definition of the leverage ratio, https://www.bis.org/fsi/fsisummaries/b3_lrf.pdf

⁴⁷ Figures 1 and 2 prepared by Nicolas Boivin for Bruegel. Source: Bruegel based on Basel Committee on Banking Supervision, Highlights of the Basel III monitoring exercise as of 26 March 2025. (The 'Americas' includes 13 US banks, six from Canada, two from Brazil and two from Mexico.) Reference: BCBS (2025) Basel III Monitoring Report, Basel Committee on Banking Supervision, Bank for International Settlements, available at <https://www.bis.org/bcbs/publ/d592.htm>

But when looking at the official ratio of top-tier capital to risks, the positioning reverses, and the European banks have higher levels of capital than their American and rest-of-the-world peers. This reflects the EU system's greater use of internal models that allow banks to declare certain assets less risky than their default weightings.

Figure 2. Tier 1 capital



The Basel Committee on Banking Supervision (BCBS, 2024) concluded that implementing the Basel III rules as agreed would raise capital requirements for EU banks more than for US banks, specifically by overriding the EU's prior leniency on allowing internal rating-based (IRB) models⁴⁸.

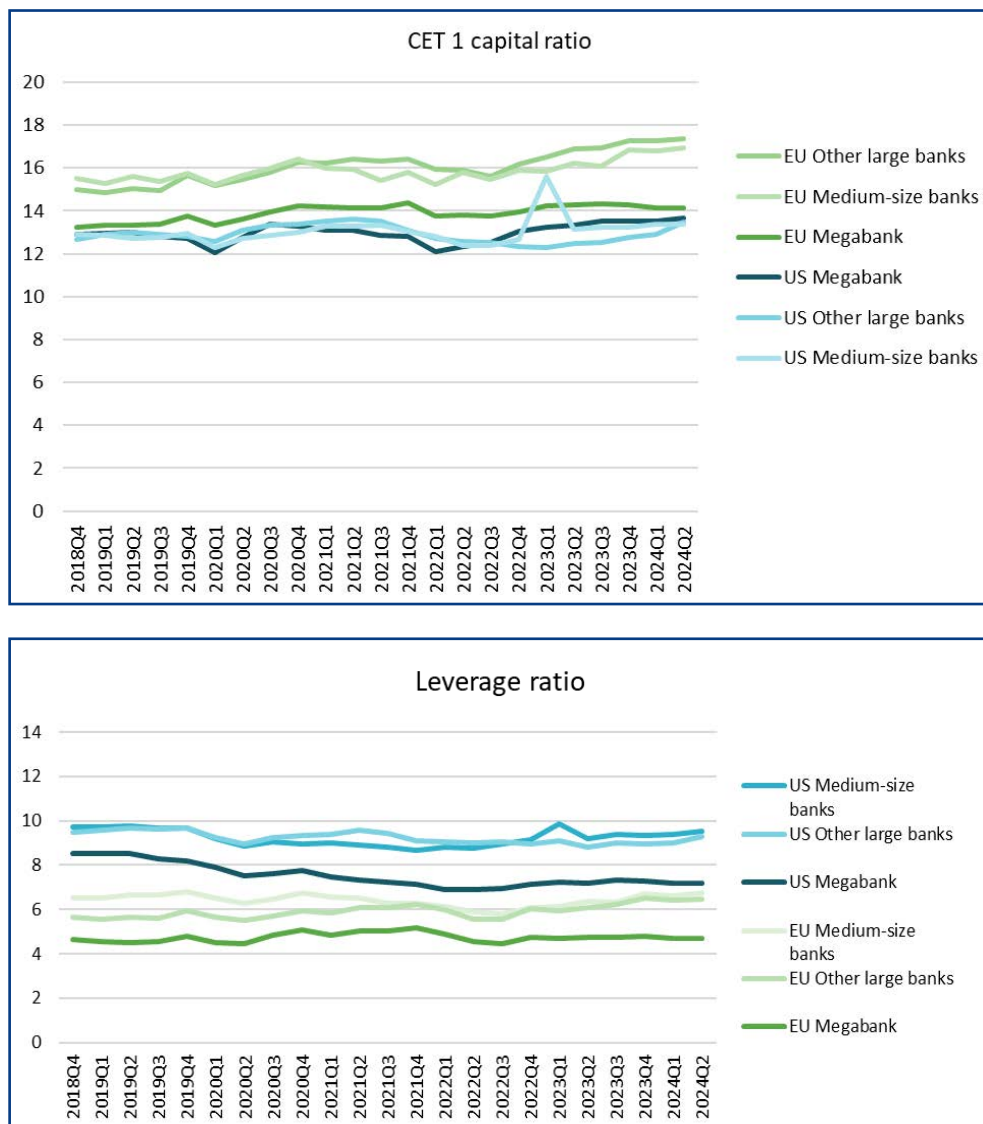
The implication here is that the European banks hold a current competitive advantage of allowing lower capital levels, not that the U.S. is at risk of undercutting a level playing field.

Mejino-López and Véron (2025) look at capital levels for banks of different sizes, and conclude that U.S. banks are better capitalized across the board when it comes to leverage ratios. For megabanks (defined as holding more than 1 trillion euros or dollars in assets), U.S. firms' leverage ratio is about 2 percentage points, or 40%, higher than

⁴⁸ Basel Committee on Banking Supervision, 2024 Basel III Monitoring Report, available at <https://www.bis.org/bcbs/publ/d570.htm>

the EU peers. The picture changes when considering CET1 ratios, although for mega-banks the difference is quite small.

Figure 3: Observed CET1 and leverage ratios for EU and US banks, 2018-2024.⁴⁹



⁴⁹ Figure 3 prepared by Juan Mejino-López. Source: Calculations based on data from the EBA and Federal Reserve, Mejino-López J. and N. Véron (2025) 'EU Banking Sector & Competitiveness', *In-depth Analysis/Study*, European Parliament, available at [https://www.europarl.europa.eu/thinktank/en/document/ECTI_STU\(2025\)764188](https://www.europarl.europa.eu/thinktank/en/document/ECTI_STU(2025)764188)

6. CLOSING THOUGHTS

Decades of work on the Basel institutions show that their work is measured in years, not months. Even if the U.S. fails to make any progress on its next round of banking legislation, that is not the same as dropping out of the international process. Likewise, while Trump and his senior officials are threatening to skip the G-20's next leaders' summit in South Africa, this is unlikely to be a permanent fracturing of the big countries' financial coordination. Trump has shown no sign of, say, urging the Fed to sell its stake in the BIS, and markets punished him for April rumblings that he might seek to undermine the central bank's independence by ending Powell's term early. One could expect that skipping out of bank safety standards completely would be catastrophic for the dollar and trigger the kind of credibility crisis that threatens Trump's whole agenda.

Instead, deregulation of the U.S. financial sector has focused on reducing customer protections and fraud enforcement. Examples of this include his efforts to close the Consumer Financial Protection Board and to close down a Justice Department team that investigated cryptocurrency fraud⁵⁰. These moves will have a significant impact on the quality of service available to the American economy, but probably will not threaten global financial solvency.

Meanwhile, U.S. banks have an incentive to lobby for Congress to move ahead with some version of Basel endgame legislation. After all, U.S. banks would like their European counterparts to be forced to hold more capital. If there is an unlevel playing field, for the moment it favours the EU, and U.S. gridlock would give Brussels more incentive to delay.

Trump's approach towards deregulation has raised concerns that it could pull back at the same time Europe is stepping up. Yet news reports suggest the ECB itself has found that its banks would need to dramatically increase capital holdings if they were subject to the same standards as big U.S. lenders⁵¹, and in any case a shakier U.S. financial system argues for EU banks to be more prudent, not less. If U.S. banks were somehow to face dramatically lower capital requirements, European authorities would have extra incentive to ask banks to meet higher capital thresholds because the global financial system would become riskier, raising the need for extra buffers. Given that banks have historically provided more than two-thirds of the EU's corporate financing, a wave of failures would quickly spill over into the broader economy.

European regulators should therefore do their best to stand strong and push ahead with the new rules. Either way, EU banks will be better off with more capital: either the EU will be a stronger participant in a rules-based system of global financial standards, or the EU will need all the reserves it can muster as that system wavers.

While the banks might grumble, the industry still prefers predictable rules over un-

⁵⁰ The Guardian, "Trump's justice department to disband unit investigating crypto fraud", 8 Apr 2025, available at <https://www.theguardian.com/us-news/2025/apr/08/trump-crypto-doj>

⁵¹ Arnold, Martin, "ECB split over report showing big EU banks' capital requirements lower than US rivals", 18 Nov. 2024. Available at <https://www.ft.com/content/48f84e00-836d-4659-9d78-60ababfa83ed>

certainty, and big banks benefit when fragmentation decreases. The euro area so far has triumphed by bringing 20 countries together under a single monetary policy and a single bank supervisor for systemic banks. For the EU to keep up with the U.S. – still the largest and most integrated capital market in the world – regulators cannot afford to back down.