

The Main Street Economy Will Suffer If Capital Is Reduced For Wall Street's 8 Megabanks

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Of the approximately 4,300 banks in the United States, about 3,900 of those banks are community banks—institutions that disproportionately provide vital funding to Main Street families and businesses.¹ Nevertheless, last month, the three federal banking agencies—the Federal Reserve (Fed), Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (banking agencies)—proposed a revised set of capital rules that provides huge, unnecessary and lopsided benefits to the 8 biggest, most complex Wall Street megabanks (often called globally systemically important banks or GSIBs), leaving community banks and the Main Street economic growth they support to suffer.²

The proposals do not prioritize the Main Street economy. Under the proposal, megabanks would face significantly lower capital requirements. This matters because high capital levels are what makes banks strong and less likely to fail. Capital absorbs losses, keeps banks lending even when the economy turns down, and shields taxpayers from the cost of bank failures. In short, strong capital means banks can keep credit flowing to families and businesses precisely when they need it most. So why would regulators want to reduce it for the banks that pose the greatest risk to the financial system?

The eight megabanks, their lobbyists, and their allies in Washington consistently claim (without evidence) that reducing capital requirements will lead to more lending—particularly to Main Street borrowers. There's even a [hearing](#) tomorrow in the House Financial Services Committee with a misleading title that furthers the baseless claim that the proposed rules would “prioritize Main Street.” But those baseless claims and talking points are simply the pretext Wall Street's 8 megabanks use to get what they really want: to get bigger, eliminate competition by buying competitors, increase prices, revenues, profits, paychecks, and bonuses.

Before we detail that below, first consider the facts that demonstrate the Wall Street megabanks' claims are false. In the years after the 2008 financial crash (which was caused by Wall Street's megabanks and other gigantic financial institutions), large banks' capital levels more than

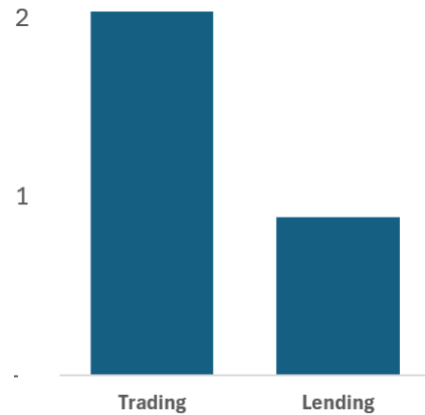
¹ See 4Q25 FDIC Quarterly Bank Profile, available at <<https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-fourth-quarter-2025.pdf>>.

² See Federal Reserve Board, Global Systemically Important Banks. The eight U.S. GSIBs are Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street and Wells Fargo. available at <<https://www.federalreserve.gov/supervisionreg/global-systemically-important-banks.htm>>

doubled. At the same time, the banks were highly profitable, grew bigger and, yes, [increased their lending](#) after the crash. That's all the exact opposite of what those megabanks claimed at the time would happen and the opposite of what they are claiming now. It was false and inaccurate then, and it is false and inaccurate now.

When the details of the three proposals (over 1,500 pages) are unpacked (as is done in this fact sheet), it's clear that the reality is the exact opposite of Wall Street's megabanks' claims.³ The proposal leave Main Street behind by the proposals in exchange for boosting the profits of the megabanks and their Wall Street financial markets activities. That's exactly what those megabanks want because they are hardly banks as traditionally understood. In fact, they are financial conglomerates that receive around half of their revenue from activities like trading, derivatives, investment banking, and making loans to investment funds like hedge funds and private equity. Those activities are extremely profitable, and the proposals would make those financial markets activities even more profitable, incentivizing megabanks to do more of those activities and less lending to the real economy.

Income per dollar capital –
4 largest banks




Source: FR Y-9C, authors' calculations

Furthermore, lower capital requirements at the megabanks will lead to lower capital levels, which will result in a higher chance of their failure. Recent history has demonstrated the catastrophic consequences to the economy, and—unfortunately—working families and small businesses always suffer the most in economic downturns. That's exactly what happened in the 2008 crash, which cost the U.S. economy nearly [\\$20 trillion](#) in lost output and unemployment skyrocketed to 10 percent. Now, once all the capital proposals are implemented, the largest banks will be one step closer to [their disastrously low levels of capital they had just before the 2008 crash](#), greatly increasing their profits at the expense of Main Street families and businesses when they experience severe distress or fail.

Making things even worse for Main Street, the already unlevel playing field the biggest banks have over community banks will shift even further in their favor. In fact, if the proposals are implemented as-is, effective capital requirements for many of the megabanks will be *less than half* the requirement that applies to many community banks. This will provide a huge competitive advantage to the biggest banks and allow them to gain more market share and push out community banks from the communities they serve. This matters a lot to Main Street because not only do community banks lend out a much higher share of their deposits to the real economy than

³ The most significant proposal from the banking agencies would implement the final elements of the Basel III agreement in the United States that would only automatically apply to GSIBs and banks with above \$700B. Another proposal from the Fed would modify a capital requirement that applies only to GSIBs (GSIB surcharge). The final proposal from the agencies would modify capital requirements in certain areas for most banks operating in the United States (notably for mortgages, corporate exposures, securitizations).



the megabanks, they also lend to a broader set of borrowers through their unique “relationship lending” model.

This only ends one way: megabanks will do less lending to the Main Street families and small businesses and more financial markets activities, and—at the same time—they will become even bigger at the expense of losing community banks and the critical support they provide for the communities they serve. Policymakers must reverse course and ensure that capital requirements reflect the riskiness of activities and institutions to ensure that Main Street isn’t further left behind.

Background on Bank Capital

Bank capital sounds technical but it is not. Bank capital is simply the ownership stake in a bank from its shareholders. Like the equity in any business, bank capital represents the funding for a bank’s assets (e.g., loans and securities) that does not come from its liabilities (deposits and debt). Simply put, it is a bank’s own “skin in the game” funding to pay for assets. When a bank issues shares to raise capital, those proceeds get deployed into loans, securities, and other assets, just like any other source of funding. Therefore, bank capital reflects how a bank is funded, not what it holds.

This distinction matters because one of the most persistent misconceptions in the debate about bank capital requirements is that higher capital forces banks to “set aside” or “hold” money in a vault — implying that cash that would otherwise be lent to businesses and households. That framing is simply wrong and too often repeated in media outlets. A bank funded by 10 percent capital and 90 percent deposits and debt does not have 10 cents of every dollar sitting idle. It has the same loans and securities as a more leveraged bank (e.g. one funded with 3 percent of capital). The main difference is that one (safer) bank is funded with a greater proportion of equity relative to debt than the other (riskier) bank. Importantly, each bank’s assets are fully deployed either way.

An analogy to conceptualize bank capital is to consider a homeowner who puts 20 percent down on a house versus one who puts 5 percent down. Both “own” the same house but one has financed much less of it and has a larger equity stake up front. More equity simply means a larger cushion that absorbs losses before creditors (in the case of a bank, depositors or bondholders) are at risk. Capital requirements, therefore, are fundamentally about the mix of funding, not the amount of lending a bank can do.

Current Capital Requirements Already Favor Big Banks and Financial Markets Activities

Despite the talking points of big banks and their lobbyists that their capital requirements are too high and are restricting economic growth, in fact the current capital requirement framework already favors big banks and their financial markets activities. It’s just that the proposals will make this even worse. It seems to have been forgotten, but the original purpose of making changes to the capital framework was to significantly increase capital requirements for the riskiest financial

markets activities, because everyone has long recognized that those requirements have been woefully inadequate.

The 2008 crash exposed two main things:

- 1) The biggest banks were hardly banks anymore but rather essentially had become massive broker-dealers and investment funds that also happened to own a traditional bank (which is still the case today); and
- 2) These banks were so large and interconnected that their failure could destroy the economy and financial markets so the U.S. government bailed them out.

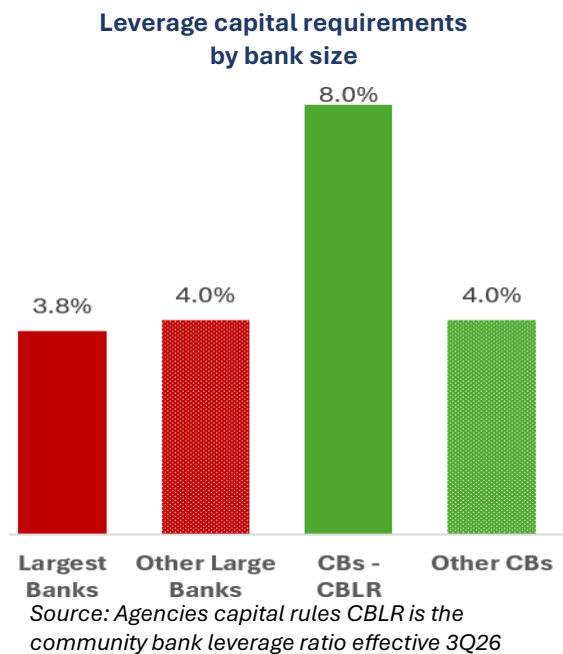
Therefore, in response, the post-crash reforms were supposed to address both, in large part through capital requirements by:

- 1) Adjusting capital requirements to better capture the riskiness of activities by increasing capital requirements for riskier activities, especially financial markets activities, relative to less risky activities; and
- 2) Recognizing that larger and/or more interconnected banks can cause risks to the entire system by increasing their capital requirements relative to smaller, simpler banks.

However, nearly 18 years after the 2008 crash, neither goal has been fully achieved and this proposal reverses that previous progress. Risky financial markets activities remain woefully under-capitalized, allowing big banks to continue doing large amounts of those activities and profiting heavily from them. In fact, the record revenues the biggest banks reported in their most recent [earnings](#) primarily came from such activities, proving that even under the current framework of capital rules, the biggest banks are leaning into financial markets activities and away from supporting the real economy.

This is apparent even when looking at their bank subsidiaries, i.e., the subsidiaries that are supposed to take deposits and make loans to real economy borrowers. In 2025, lending by the largest six banks to investment funds (like private equity and hedge funds) grew by 50 percent, whereas their lending to the real economy did not grow at all (zero percent).⁴

Additionally, the biggest, most complex banks now have minimum leverage capital requirements⁵ that are half



⁴ Better Markets analysis based on FR Y-9C and Call Report data.

⁵ Leverage requirements are a simple capital requirement that measures a bank's capital against a non-risk-adjusted measure of its total assets or exposures. Risk-based capital requirements, on the other hand, adjust the denominator of the capital ratio requirement based on the perceived riskiness of each asset.

the capital requirement that applies to many community banks (the community bank leverage ratio)⁶. It can be seen in the figure above that across all minimum leverage capital requirements the biggest banks have requirements that are half or the same as those for all community banks. That is, banks with trillions or hundreds of billions in assets that engage in a range of financial markets activities have the same or much lower minimum capital requirements as community banks, most of which have \$1 billion or less in assets.

Overview of Capital Proposals

While framed as a modernization and simplification of the capital rules, the proposals represent a material shift away from the post-2008 consensus that higher, more resilient capital is essential to financial stability.

At the core of the proposals is a move toward a single capital requirement for large banks, replacing the longstanding requirement that banks calculate capital under multiple approaches—including separate so-called standardized (primarily rule driven) and advanced (much more model driven) methodologies—and comply with the higher of the capital requirements. This change is presented as a simplification, but in practice it eliminates an important safeguard against model risk and regulatory arbitrage, both of which were central contributors to the 2008 financial crisis.⁷ That is, banks have been able to manipulate their models to lower their capital requirements, and the proposals will eliminate the safeguard that has been in place.

The proposals also include a range of recalibrations across risk categories—market risk, operational risk, credit risk, and the GSIB surcharge—that, taken together, materially reduce capital requirements for the largest and most complex institutions. This marks a sharp departure from the original proposal that was put forth in 2023, which aligned closely with the agreed-upon international standards and was designed to increase capital to address well-documented shortcomings in risk measurement and capital adequacy.

The agencies characterize these changes as balanced and data-driven. But the overall direction is clear: lower capital, greater reliance on internal models and assumptions for large banks' trading activities, and a retreat from hard, binding constraints. The proposal represents a fundamental policy mistake with significant negative implications for financial stability and the real economy.

⁶ The community bank leverage ratio—the minimum leverage capital requirement that applies to many community banks—is nearly twice the leverage requirement that applies to the largest GSIBs, a disparity that is even more striking than it appears because leverage ratios for large banks (supplementary leverage ratio) are calculated against a broader exposure base that includes off-balance-sheet items, derivatives and securities financing transactions, whereas community banks carry almost no such exposures. When measured against a comparable asset base, the capital advantage the largest banks enjoy over community banks is even larger than the headline numbers suggest.

⁷ See e.g., Brown, Jeffrey A., Brad McGourty, and Til Schuermann. "Model Risk and the Great Financial Crisis: The Rise of Modern Model Risk Management." Wharton Financial Institutions Center Working Paper No. 15-01 (January 7, 2015). Available at <<https://wifpr.wharton.upenn.edu/wp-content/uploads/2021/07/15-01.pdf>>.

The Primary “Justification” that the Proposed Capital Reduction Will Boost Lending Lacks Empirical Support

The industry claims that higher capital requirements constrain lending (and the reverse logic that lower capital requirements increase lending) is one of the most frequently invoked—and least substantiated—arguments in banking policy.

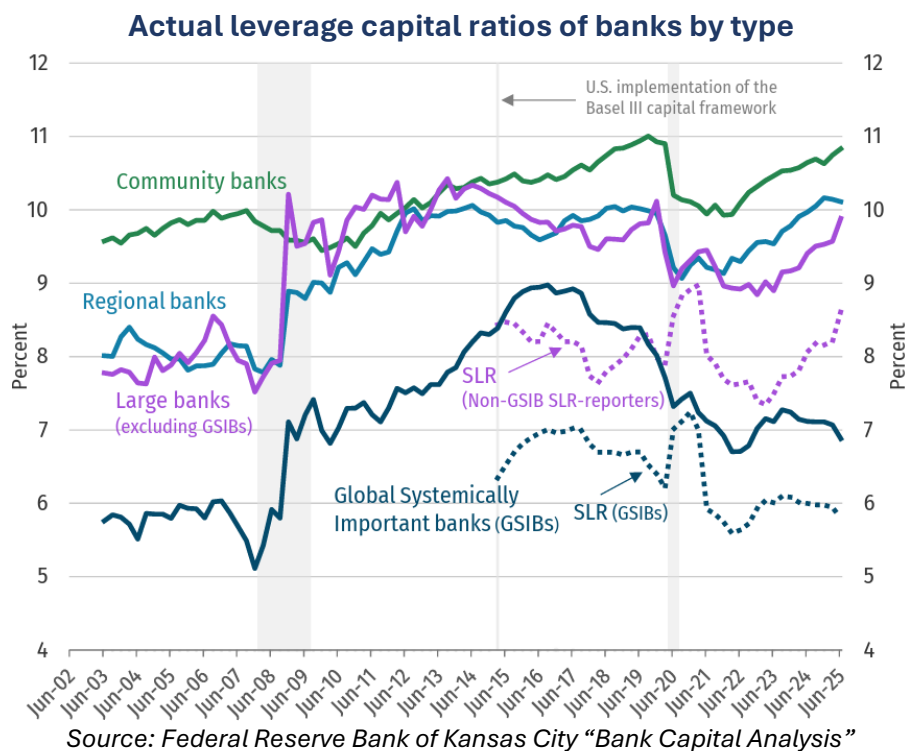
A substantial body of empirical research finds that well-capitalized banks are fully capable of maintaining or even increasing lending, especially in economic downturns. For example:

- The Basel Committee on Banking Supervision has repeatedly [concluded](#) that the long-term economic costs of higher capital are small relative to the benefits of reduced crisis probability and reduced effects of crises that come from bank support to the economy during downturns;
- The Federal Reserve’s own research finds that higher capital requirements have [minimal impact on lending](#) but significantly reduce the likelihood and severity of financial crises; and
- Studies following the post-2008 capital increases show that U.S. banks [expanded lending](#) while capital levels rose substantially, contradicting claims of a binding tradeoff.

Reductions in capital requirements have historically coincided with higher shareholder distributions, i.e., paying the capital out to investors first rather than using it to increase lending. This is precisely what the GSIBs recently [indicated](#) they plan to do after the agencies’ proposal was released.⁸ Moreover, when the six GSIBs with large insured bank subsidiaries reported their first quarter 2026 earnings—the first opportunity to signal new lending commitments in response to the proposals—not one announced new plans to expand lending to households or businesses.

Further, research on banking competition and concentration (e.g., from [IMF researchers](#)) shows that larger banks already benefit from funding advantages and implicit subsidies. Reducing their capital requirements relative to smaller banks only amplifies these distortions. Conversely, community banks maintain much higher levels of capital than large banks and yet do much more lending than large banks.

⁸ See e.g., “Goldman Sachs raises dividend 50% after a major change.” Available at, <https://www.thestreet.com/investing/goldman-sachs-raises-dividend-50-after-major-change>



In fact, community banks:


- [Lend out a much higher share of their deposits](#) in direct lending to real-economy borrowers—75 percent of deposits—than large banks—only 40 percent of deposits;
- Approve loans for more types of borrowers through their unique “relationship banking” model, especially for small business for which [community banks approve](#) nearly 55 percent of loans compared to only a 45 percent approval rate for larger banks and for [low-income mortgage borrowers](#);
- Support small business much more than larger banks, having around 40 percent of the balance of small business loans despite having only 15 percent of bank assets⁹; and
- Provide more support to communities [during economic downturns](#) than large banks.

Taken together, the evidence demonstrates that the lending argument is false.

Proposal Incentivizes Lending to Large Corporations and Financial Companies, Not Main Street

Lending to Main Street won’t be boosted, as discussed in the previous section. However, it will be impacted by the proposals—just not in the way the agencies are asserting. Ultimately, the

⁹ Analysis based on number of small business loans outstanding from the Call Report.



incentives in the proposals will drive lending by the biggest banks further towards large corporations, the already wealthy, and many types of nonbank financial institutions such as nonbank mortgage originators and investment funds like hedge funds and away from Main Street households and small businesses.

The proposals would make capital requirements for various types of loans more “risk sensitive”, meaning that loans with lower risk would have lower capital requirements and vice versa. Making capital requirements for exposures more granular can be beneficial to help ensure that banks have enough capital, especially for riskier loans. On the other hand, making capital requirements more granular creates incentives for banks to do more of the activities that require lower capital and less of the activities that require higher capital. This especially is the case for the [biggest banks which keep their capital levels as close to requirements as possible as opposed to community banks which generally maintain capital levels well above requirements](#).

First, the new capital requirements would incentivize big banks to allocate more lending to large corporations than to small businesses.¹⁰ That’s because the proposals would shift from a single capital requirement for all corporate loans to having lower requirements for so-called “investment grade” companies and higher requirements otherwise. It is very easy for large companies to show that they are investment grade, because they have debt that trades on public markets that provide grade classifications. Mid-sized companies and small businesses generally do not have this luxury. The proposal claims to address this by allowing for independent, qualitative assessments for companies without debt market access, but those assessments would require additional time and resources.¹¹ Therefore, big, profit-maximizing banks will be incentivized to do more lending to large companies and less lending to Main Street small businesses to lower their requirements.

The opposite would be true for many community banks—that is, their capital requirements will increase, but, unlike big banks, it would not affect their lending to small businesses. Because of their size, community banks’ corporate lending is almost exclusively to small and midsized businesses. And unlike the biggest banks, most community banks maintain capital levels well above their requirements, and so they will have little to no incentive to change their lending.

Second, the new rules would incentivize big banks to do even more lending to nonbank financial institutions, including nonbank credit providers like nonbank mortgage companies and to investment funds like private equity and hedge funds. The current rules already provide a strong incentive for these loans, which is why they grew nearly 60 percent last year at the biggest banks

¹⁰ Under the proposal, large banks would face a risk weight of 65 percent for loans to borrowers they deem investment grade—a designation that large public companies can establish easily through their publicly traded debt—while community banks operating under the standardized approach would face a 95 percent risk weight for the same corporate exposures. That is a 30 percentage point difference in the capital cost of making an otherwise identical loan.

¹¹ The real-world effectiveness of this provision depends almost entirely on how rigorously supervisors oversee those internal determinations. If supervision is lax—as it has been since the beginning of the new administration—large banks will face a strong financial incentive to apply the investment grade label generously, capturing the capital benefit while directing credit toward larger, more profitable borrowers. History offers little reason for confidence that self-assessed ratings will be policed consistently.

as compared to zero growth for their lending to the real economy.¹² These loans are set to grow even more because loans to investment funds will benefit from the qualitative investment grade assessment, and loans to credit intermediaries and investment funds will benefit from the more liberal framework around so-called securitization structures.

Third, proposals also restructure mortgage risk weights in a way that, while improving risk sensitivity, will systematically favor wealthier borrowers over first-time homebuyers. That's because capital requirements will change from being a single risk weight (currently 50 percent) to multiple risk weight buckets that are lower for mortgages with higher down payments and vice versa.¹³ That change will better reflect credit risk but ultimately will primarily benefit wealthy homebuyers because they more often use higher down payments.

Also, unsurprisingly, it will greatly reduce capital requirements for the biggest banks, because most of their mortgage balances are to wealthy clients that purchase expensive homes with high down payments. Therefore, the biggest banks will be incentivized to do even more mortgage lending to wealthy households to boost the profitability of their mortgage businesses.

The opposite would be true for many community banks—that is, their capital requirements will increase, but, unlike big banks, it would not affect their mortgage lending. Most community banks proportionally provide fewer mortgages to wealthy households and more to lower-income and first-time homebuyers. And as noted above, most community banks maintain capital levels well above their requirements.

Finally, the agencies are significantly lowering capital requirements for so-called mortgage servicing rights, which essentially allow the owner of those rights to interface directly with the mortgage borrower. These “rights” can be lucrative to big banks because interfacing with clients can lead to even more business by capturing clients and cross-selling other products. This again would be a benefit primarily to big banks since most community banks [maintained their mortgage servicing](#) despite the higher capital requirements that were put in place after the 2008 crash.¹⁴

The bottom line is that while the agencies assert the proposals will increase lending to Main Street, the modest incentives for small business and consumer credit are dwarfed by far larger capital relief for large corporate borrowers, wealthy mortgage holders, and non-bank financial institutions — raising the question of who these rules are actually written for.

The Agencies' “Impact Analysis” Is Flawed

¹² Based on data from FR Y-9C and Call Report.

¹³ However, for most first-time homebuyers the risk-weight will effectively be the same as today at the onset of the mortgage

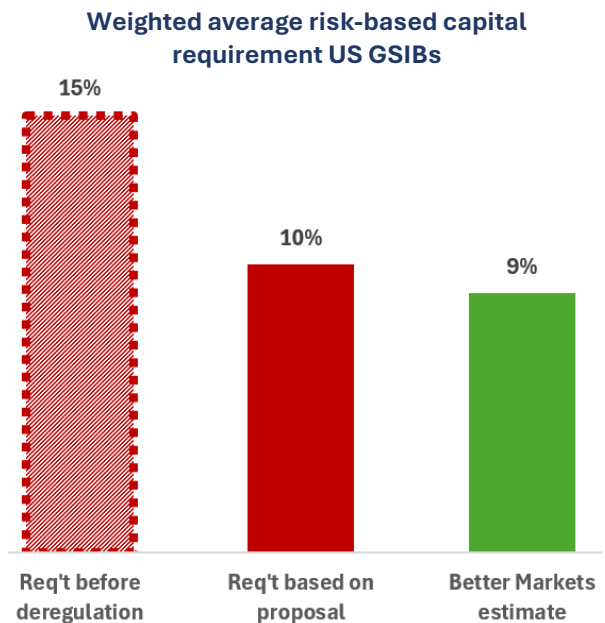
¹⁴ The premise of lowering requirements for mortgage servicing assets is suspect given that the Fed concluded in a 2016 study that in 2008, the FDIC found mortgage servicing assets of troubled or failed institutions to be generally unmarketable at book value during periods of market volatility. See Federal Reserve Board of Governors, Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets, available at <https://www.federalreserve.gov/publications/2016-capital-rules-mortgage-servicing-assets-Regulatory-Approaches-for-Mortgage-Servicing-Assets.htm>.

The agencies estimate that the proposed capital framework will reduce aggregate capital requirements for the largest banks by approximately 5 percent relative to current requirements. While that figure may appear modest, that would translate to an estimated \$60 billion in reduced loss-absorbing capacity.

Most importantly, that estimate likely understates the true impact. A large body of academic literature and supervisory experience shows that banks respond dynamically to changes in capital rules through balance sheet optimization, risk shifting, and model adjustments. For example, research by the [Bank for International Settlements](#) and even some bankers¹⁵ have acknowledged that sophisticated banks take affirmative steps to reduce risk-weighted assets (RWAs) materially through internal model adjustments and portfolio reallocation—often by amounts exceeding [10 percent over time](#).

Similarly, studies from the [European Central Bank](#) and from the [Federal Reserve Board](#) demonstrate that measured capital ratios can diverge significantly from actual economic risk, particularly when internal models are heavily relied upon. These dynamics strongly suggest that the true decline in effective capital under the proposal will be significantly larger than the agencies' static estimates.

Furthermore, instead of performing an updated data collection for its analysis, the agencies relied on outdated and insufficiently granular data to perform the impact analysis. As a result, much of the data used in the impact analysis was obtained in a voluntary 2023 special data collection that ironically was collected to support the failed and now rescinded 2023 attempt to implement Basel III. The analysis acknowledges but doesn't attempt to model that certain activities of banks have shifted materially since then, and so impacts based on the data would not apply currently. Also, certain businesses would require quite granular data to appropriately assess the impact—for example, derivatives. Notably, the agencies even relied on a trade association comment letter to proxy data, which calls into question the credibility of the analysis.



Source: Dec. 2025 FR Y-9C, 2025 Federal Reserve "large bank capital requirements", 2019 Comprehensive Capital Analysis and Review disclosure, authors' calculations and estimates

¹⁵ See JPMorgan CEO Jamie Dimon 1Q26 JPMorgan Earnings call: "I'll add one other thing. We will obviously use our brainpower to do something I don't like doing, which is trying to find a lot of ways to serve our clients properly and reduce the GSIB charge, which is usually called arbitrage. So, I'm not sure the outcome is great for the system, but we will find ways to do it." Available at, <https://www.jpmmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/quarterly-earnings/2026/1st-quarter/1q26-earnings-transcript.pdf>

Based on all these issues with the analysis, Better Markets has conducted its own analysis to determine a more realistic reduction to bank capital requirements.¹⁶ As can be seen in the figure, the Better Markets estimate for the GSIBs is about a percentage point lower than the estimate in the proposal.¹⁷ That is nearly 40 percent lower than the risk-based capital requirements that were in place in 2019 when the [deregulatory efforts began](#).

Concerning Deviations from Minimum Basel Standards

The proposals were supposed to be the culmination of years of international negotiations that focused on a goal of increasing capital requirements for financial markets activities, particularly trading activities. These negotiations resulted in a set of minimum standards that were published in 2017. Those minimum standards did adhere to the original goal and were set to raise capital requirements particularly for trading activities and so-called operational risk that materially comes from wealth management activities. However, the recent proposals would deviate from the international framework and prior U.S. safeguards in several critical areas, each of which raises serious concerns.

Market Risk


The proposal's market risk framework allows for expanded reliance on internal models and lower capital requirements for positions with limited pricing history. This is an intentional weakening of the backstops that were designed to address the well-documented failures of the extremely faulty models that were used before the 2008 crash and infamously made huge under-estimations of the true risks. The Basel reforms—particularly the Fundamental Review of the Trading Book or FRTB—were explicitly intended to limit model discretion and improve comparability.

The proposal departs from the FRTB in several ways that systematically reduce capital requirements for the trading activities where the largest banks earn their highest revenues and take their most concentrated risks. The most consequential deviation is the elimination of the output floor for market risk. The Basel output floor at 72.5 percent was specifically designed as a backstop to prevent banks from using internal models to reduce their risk-weighted assets to levels far below what a standardized approach would produce, directly addressing the pre-crisis experience in which internal models were systematically gamed to minimize capital charges on trading positions.

By removing the output floor for market risk entirely, the proposal does not merely abandon this safeguard—it inverts it. Under the Basel framework, the standardized approach serves as a floor: internal models can produce lower capital requirements, but only down to 72.5 percent of what

¹⁶ It is assumed that banks are able to reduce their risk-weighted assets by 10 percent through a combination of gaming and balance sheet optimization, in-line with the research cited in this section. Additionally, six of the eight GSIBs are assumed to have a stress capital buffer that is equal to the floor with the other two above the floor in an amount similar to their recent stress capital buffer requirements. The reductions to GSIB surcharges are in accordance with the estimates in the proposal.

¹⁷ Based on FR Y-9C data from year-end 2025.



the standardized approach would require. Under the proposal, the relationship is reversed: banks that use internal models are no longer required to meet the standardized measure at all, and the standardized approach effectively functions more like a ceiling—the most capital a bank would ever have to hold for market risk, rather than the minimum. A framework designed to constrain model-driven capital reduction has been rewritten to enable it, with the standardized approach now serving as an upper bound rather than a lower one.

The proposal also allows greater netting between derivatives and repo (cross-product netting) and offsetting of risk across trading positions and product types that go far beyond the Basel framework. It also weakens the FRTB's built-in checkpoints—the Profit & Loss Attribution test and Risk Factor Eligibility test—which were specifically designed to determine whether a bank's internal models are reliable enough to be used for capital purposes at all.

Taken together, these concessions allow the banks with the largest and most complex trading books—which are precisely the institutions that generated record trading revenues in 2025—to hold meaningfully less market risk capital than the Basel framework was designed to require, using the very internal modeling flexibility that the post-crisis reforms were built to constrain.

Operational Risk¹⁸

The proposal departs from the Basel Committee's operational risk framework in several significant ways that collectively reduce the risk-sensitivity of the capital charge and lower requirements well below what the Basel standard contemplates.

Most consequentially, the proposal sets the Internal Loss Multiplier—the mechanism in the Basel standard specifically designed to scale each institution's operational risk capital requirement up or down based on its actual ten-year loss history—at a fixed value of one across all firms. This means that a bank with a chronic history of large operational failures—fraud, misconduct, systems failures, legal settlements would face the same operational risk capital charge as a bank with a clean record, severing the link between capital and demonstrated risk that is the entire purpose of the Basel framework.

The proposal also changes how revenues are counted when calculating operational risk capital. It allows banks to subtract expenses from income in certain fee-based businesses, and applies a 30 percent discount to revenues from wealth management, custody, and investment services—neither of which is consistent with the Basel frameworks. These adjustments happen to significantly reduce capital requirements for many of the largest U.S. banks, which earn substantial revenues from exactly those business lines.

These deviations are systematic adjustments that lower operational risk capital requirements for the largest banks.

¹⁸ Operational risk is the risk of loss resulting from failures in a bank's internal processes, people, or systems, or from external events outside the bank's control. Operational risk also includes legal risk.

Output Floor

In addition to the market risk specific output floor, the aggregate Basel output floor on all risk-weighted assets—set at 72.5 percent of standardized RWAs—was designed as a hard backstop to prevent excessive reliance on internal models. In fact, U.S. negotiators strongly pushed for this change in the package.¹⁹ However, the U.S. proposal does not include an explicit output floor and would weaken the effectiveness of the output floor through interactions with other elements of the framework, calibration choices, and structural adjustments. As a result, other jurisdictions may follow the U.S.'s lead and not apply an output floor, undercutting the entire premise of the Basel standard.

Overall

Collectively, these deviations move the framework away from simplicity, comparability, and resilience, and toward complexity, opacity, and lower effective capital. As noted above, there is little evidence that lower capital meaningfully increases real-economy lending. In fact, none of the largest bank CEOs at their 1Q26 earnings announced new lending programs in light of the proposal's capital reductions. Instead, the most consistent effect is greater risk to the financial system and, ultimately, to taxpayers.

Collins Amendment – Where's the Analysis?


The Collins Amendment requires that capital rules for large banks must always meet at least the same minimum requirements that apply to banks generally—and can never go below the levels that existed in July 2010. This was designed to prevent regulators from quietly weakening big-bank capital standards below what triggered the 2008 financial crisis.

The agencies' approach—reducing standardized requirements, increasing reliance on internal models, and recalibrating key parameters—creates a significant risk that effective capital levels will fall below the statutory floor.

Equally concerning, the proposal does not provide a clear, quantitative demonstration of compliance with the Collins Amendment. There is no transparent analysis showing:

- How current capital levels compare to post-2010 standards;
- Whether the revised framework preserves or exceeds those levels; and
- How reductions in one area are offset by increases elsewhere

¹⁹ See Basel III Reforms: Analysis and Potential Impact on U.S. Banks," Review of Banking & Financial Law, Vol. 36, pp. 498–514 (2016–2017). Boston University School of Law. Available at, <<https://www.bu.edu/rbfl/files/2017/09/P514.pdf>>. Daniel Tarullo, who led the Federal Reserve Board's negotiations of the Basel III endgame package, supported the credit risk reforms to place constraints on internal models and to implement an output floor.



Without such analysis, it is impossible to assess compliance, and the proposal practically invites legal challenges.

At a minimum, the agencies must demonstrate—clearly and transparently—that the proposal does not weaken capital relative to the post-crisis baseline required by law.

Some Positives

Despite the myriad of policy mistakes, the proposal includes several constructive elements.

The expansion of Accumulated Other Comprehensive Income (AOCI) to Category III and IV banks is a meaningful improvement. The exclusion of AOCI for these institutions contributed to misleading capital ratios and hidden interest rate risk, which played a significant role in the 2023 regional bank failures. Including AOCI enhances transparency and risk sensitivity, aligning regulatory capital more closely with economic reality. However, the proposal does not provide a justification for why it shouldn't also apply to all non-community banks (e.g. banks with above \$30B per the new Office of the Comptroller of the Currency definition of community banks).

Similarly, adjustments to the GSIB surcharge framework, including reducing the ability of banks to game the surcharge calculation and adding the measurement of derivatives exposures to the scope of the methodology, are important positive changes that would improve the surcharge. These changes reflect lessons learned from recent episodes of financial stress and represent important steps in the right direction. However, they are outweighed by broader reductions in capital and weakening of core safeguards elsewhere in the proposal.

Conclusion

Simply put, these proposals have only one conclusion: Wall Street wins, and Main Street loses. Strong bank capital levels are extremely important to the safety and soundness of banks and are foundational to economic growth and the betterment of the livelihoods of all Americans. The capital proposals will incentivize more risk taking by the biggest banks, more financial markets activities, and more lending to other Wall Street firms and the wealthy. The end result will be fewer community banks and less lending to Main Street. On top of that, the proposals will leave the biggest, riskiest banks as woefully undercapitalized as they were just before the 2008 crash, materially increasing the risk of another panic. The agencies must reverse course and right-size the capital framework so that the biggest, riskiest banks have by far the highest capital requirements to ensure that our community banks can continue supporting the Main Street economy and to prevent the biggest banks from wrecking the banking system once again.




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