

GAO Highlights

Highlights of [GAO-15-67](#), a report to the Chairman, Subcommittee on Financial Institutions and Consumer Credit, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The 2007-2009 financial crisis revealed that many U.S. and international banks lacked capital of sufficient quality and quantity to absorb substantial losses. In 2010, the Basel Committee (the global standard-setter for prudential bank regulation) issued the Basel III framework—comprehensive reforms to strengthen global capital and liquidity standards with the goal of promoting a more resilient banking sector. In 2013, federal banking regulators adopted regulations to implement the Basel III-based capital standards in the United States, which generally apply to U.S. bank holding companies and banks and are being phased in through 2019. Some market participants have raised questions about the potential negative impact of the regulations on U.S. banks, including on their lending and competitiveness.

This report examines how (1) the U.S. Basel III regulations may affect U.S. banks, including smaller ones, and (2) implementation of Basel III by different countries and other jurisdictions may affect U.S. banking organizations' international competitiveness. To address the objectives, GAO analyzed data from financial filings; conducted legal and economic analysis; reviewed empirical studies, federal regulations, and agency documents; and interviewed regulators, U.S. and foreign banks, and industry associations.

GAO makes no recommendations in this report. GAO provided a draft of this report to the banking regulators for their review and comment and received technical comments, which were incorporated as appropriate.

View [GAO-15-67](#). For more information, contact Lawrence Evans at (202) 512-8678 or evansl@gao.gov.

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BANK CAPITAL REFORMS

Initial Effects of Basel III on Capital, Credit, and International Competitiveness

What GAO Found

Although the U.S. Basel III capital requirements may increase compliance costs, they likely will have a modest impact on lending activity as most banks may not need to raise additional capital to meet the minimum requirements. GAO's analyses of financial data for the first quarter of 2014 indicate the vast majority of bank holding companies and banks currently meet the new minimum capital ratios and capital conservation buffer (an additional capital requirement) at the fully phased-in levels required by 2019. GAO estimated that less than 10 percent of the bank holding companies collectively would need to raise less than \$5 billion in total additional capital to cover the capital shortfall. Banks with a shortfall tended to be small, with less than \$1 billion in assets. The empirical research GAO reviewed suggests that higher regulatory capital requirements will have a modest effect on the cost and availability of credit. Similarly, GAO's economic analysis indicates that raising the additional capital would lead to a modest decline in lending and a modest increase in loan rates. According to officials from the eight community banks GAO interviewed, they do not anticipate any difficulties meeting the capital requirements but expect to incur additional compliance costs. Officials from the 10 global systemically important banks that GAO interviewed said they have been incurring significant costs to comply with the new requirements, but three said that U.S. minimum capital ratios for Basel III tend not to be the binding capital constraint. Most of these bank officials said they expect the requirements to improve the resilience of the banking system.

Jurisdictional differences in the implementation of the Basel III capital standards have arisen, but their competitive effect on internationally active banks is unclear. Basel III serves, in part, to limit competitive disparities due to differences in capital standards, but there are limitations to full harmonization. For example, the Basel capital standards have no legal force; rather, members of the Basel Committee on Banking Supervision (Basel Committee) developed and agreed to the standards, with the expectation that each member will implement them. Thus, jurisdictions may adopt requirements more or less stringent than the minimum standards. Almost all Basel Committee members report having adopted rules to implement the Basel III capital requirements. To help promote a level regulatory playing field, the Basel Committee began conducting reviews in 2012 to assess whether each member's implementation meets the Basel III minimum standards and whether implementation produced consistent outcomes across jurisdictions. These reviews found the rules of the seven members it assessed to date to be generally compliant. However, the Basel Committee's other reviews identified some inconsistencies in how banks across different jurisdictions calculated their risk-weighted assets. As was the case with Basel II implementation, some banks and others are concerned about jurisdictional differences in the implementation of Basel III and their effect on competition. For example, some jurisdictions are subjecting certain of their banks to capital or leverage requirements above the Basel III minimums or exempting banks from certain capital requirements. Because Basel III's implementation is ongoing, the extent to which the differences collectively will affect competition among internationally active banks is unclear. In addition, other factors can affect the competitive position of internationally active banks, such as differences in accounting treatment, cost of capital, and tax rules across jurisdictions.