GAO Highlights

Highlights of GAO-25-107995, a report to congressional requesters

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BANK CAPITAL REFORMS

U.S. Agencies' Participation in the Development of the International Basel Committee Standards

Why GAO Did This Study

The Basel Committee released initial Basel III standards in 2010, followed by additional reforms that resulted in final Basel III standards in 2017 and 2019. These updated standards, which have not yet been implemented in the U.S., revised methods for estimating a bank's risks, which affect its regulatory capital requirements.

GAO was asked to review U.S members' actions during the final Basel III negotiations. This report examines (1) how the Basel Committee organized the work to develop the standards, (2) information and analyses U.S. members considered to inform their positions, and (3) U.S. members' priorities for reform and actions taken to further those priorities. This is the public version of a sensitive report GAO issued in December 2024. Information on U.S. members' actions during the development of the standards and their positions on reforms has been omitted.

GAO analyzed U.S. members' internal sensitive documents related to the development of the standards. These included internal briefing notes, talking points, analyses, and other documents prepared for the negotiations during 2011–2019. GAO also analyzed Basel Committee consultative documents, quantitative impact studies, other publicly released documents, and the final Basel III standards. GAO interviewed officials from the four U.S. members responsible for the final Basel III negotiations and Basel Committee Secretariat staff (who support the work of the Committee and its component groups).

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What GAO Found

Capital plays a critical role in ensuring bank safety and soundness. The Basel Committee on Banking Supervision, an international body of bank supervisors, sets nonbinding minimum regulatory capital standards for large banks. The committee relies on its members to implement the standards in their jurisdictions. The U.S. members of the Basel Committee are the Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency.

Standard-development process. The Basel Committee process for developing the standards involved multiple rounds of analyses, discussion, and review. Each final standard underwent at least one round of public comments and quantitative studies assessed potential impacts on banks' regulatory capital. Decisions were made by consensus, with groups negotiating and agreeing on the scope of work, alternatives to analyze, actions to take or not take, and standards to propose and finalize. Staff from all U.S. members participated in these groups. GAO found collaboration among U.S. members throughout this process generally reflected best practices for interagency collaboration (such as leveraging information and including relevant participants).

External comments and impact analyses. U.S. members informed their positions by reviewing public comments on proposals, meeting with industry representatives, contributing to and using quantitative impact studies, and conducting their own analyses. These activities helped provide insight into the potential impacts of proposed reforms and identify alternative approaches. GAO found that the information U.S. members collected and analyses they conducted generally reflected key elements for regulatory analysis (such as consideration of alternatives and evaluation of benefits and costs).

U.S. members' negotiating priorities. U.S. members had two overarching reform priorities for the final Basel III standards. One was to better align certain regulatory standards for non-U.S. banks with their parallel U.S. requirements to promote a more level playing field. U.S. members also shared the Committee's priority to address weaknesses in the Basel framework—they sought to improve and balance the simplicity, comparability, and risk sensitivity of bank capital standards. For example, previous standards allowed banks more leeway in the way they modeled the risks of their assets (to help determine how much regulatory capital to hold to offset the risks). The Committee, including U.S. members, prioritized reforms that constrained banks' use of internal models to help increase the comparability of risk-weighted assets across banks. GAO's analysis of U.S. documents showed that U.S. members participated actively in the working groups that developed the standards to further their reform priorities.