REGULATORY DIVERGENCE AND GLOBAL FRAGMENTATION— BASEL AND BEYOND

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1. INTRODUCTION

The finalization of the Basel III framework seeks to make capital requirements highly comparable across the global banking sector by constraining internal risk models and imposing an output floor on risk-weighted assets (RWAs). However, implementation has produced divergence across jurisdictions. While some jurisdictions have adopted the framework as proposed, and others such as the European Union and the United States have calibrated the framework towards domestic priorities. This pattern is captured in the phrase — Basel in name, divergence in practice.

This report compares how Basel III finalization is being implemented in Canada, the U.S., the EU and Australia across three dimensions: (1) impact of institutional regulatory structure, (2) capital calibration, and (3) implementation timing. After identifying key points of divergence, it continues to discuss challenges and implications of that divergence.

This report is organized into four sections. First, we provide an overview of the capital mechanisms and key terminology essential to understanding Basel III finalization. Second, we employ a cross-national case study comparison of Basel III implementation across the four jurisdictions. To ground this analysis, the report draws on a variety of primary sources including legislation, government records, official policy statements and regulatory guidance. Third, we provide a comparative analysis of the different jurisdictions across the three dimensions. Fourth, we examine the implications of any divergence for competitive positioning and cross-border supervisory coordination and assess whether it reflects the national discretion long embedded in the Basel framework or a departure from it.

2. FRAMEWORK OVERVIEW: CAPITAL MECHANISMS AND OTHER MEASURES IN BASEL III FINALIZATION

The Basel Committee on Banking Supervision (BCBS) sets international capital standards; however, implementation remains nationally driven, as regulators choose to align closely with the rules within their legal frameworks.[i] The capital mechanisms discussed in this section determine where regulatory constraints become binding and how banks adjust their balance sheets. Differences in implementation then translate into variation in lending capacity, profitability and competitive positioning.

Basel III measures aim to strengthen the regulation, supervision, and risk management of banks. The framework requires banks to hold higher and better-quality capital against risk weighted exposures across credit, market and operational risks, while also maintaining minimum liquidity and leverage buffers.[ii] The core objective of Basel III finalization is to

i Bank for International Settlements, *Promoting global monetary and financial stability through international cooperation. 2025.* https://www.bis.org/publ/arpdf/ar2025e.pdf

ii Ibid.; David Wessel, *What is bank capital? What is the Basel III Endgame?* Brookings Institution, 2024

restore credibility and comparability in the calculation of RWAs by constraining internal models, expanding the use of standardized approaches and introducing an output floor. These measures aim to improve the reliability of capital ratios and enhance the resilience of the global banking system.[i]

a. Risk Weighted Assets (RWAs)
RWAs determine the amount of capital banks are required to hold against their exposures by assigning risk weights based on credit, market and operational risk. This increases the marginal cost of lending and directly influences credit allocation and pricing across sectors.[ii] The risk-sensitive framework was introduced under Basel II and strengthened under Basel III. Banks may calculate RWAs using either standardized approaches where supervisors prescribe risk weights or internal ratings-based (IRB) models that estimate borrower-specific risk. Basel III finalization further constrains internal model variability by introducing an output floor, limiting the extent to which model-based RWAs can fall below standardized calculations.[iii]

b. Capital Requirements
Common Equity Tier 1 (CET1) represents the highest quality of regulatory capital, as it absorbs losses immediately on an ongoing basis.[iv] CET1 requirements determine how much equity banks must hold relative to their RWAs. As these requirements increase, the cost of deploying capital rises, reducing return on equity in capital-intensive business lines. In response, banks adjust through repricing, portfolio reallocation and reducing credit growth in higher-risk segments.

c. Output Floor
The output floor limits the extent to which banks can use internal models to reduce RWAs, by requiring that model-based RWAs remain above a fixed percentage of standardized calculations. Under Basel III finalization, the output floor is 72.5%. This occurs when Basel III finalization is fully implemented. It is important to note that the current output floor varies by jurisdiction, as national governments begin to implement the Basel framework. For example, Canada is currently at 67.5% and the Office of the Superintendent of Financial Institutions (OSFI) plans to notify banks well in advance before increasing the output floor. Australia is the only jurisdiction discussed that has currently implemented the 72.5% output floor. As the output floor becomes binding in a given jurisdiction, banks that previously benefited from lower model-based risk estimates face higher effective RWAs. This increases capital requirements in model-driven portfolios and leads to adjustments in lending behaviour, pricing and balance sheet composition.[v]

d. Disclosure and Reporting
Basel III finalization expands disclosure and reporting requirements by increasing data granularity, validation standards and supervisory

i Ibid, Basel III: International Regulatory Framework for Banks. 2017. Bank for the Main International Settlements. Basel Standards are not legally binding by any major country. It is up to countries at home to decide if they choose to enact the regulations.

ii Wessel, David. 2024. What Is Bank Capital? What Is the Basel III Endgame? Brookings. https://www.brookings.edu/articles/what-is-bank-capital-what-is-the-basel-iii-endgame/

iii Ibid, David Wessel, *What is bank capital? What is the Basel III Endgame?* Brookings Institution, 2024

iv 'Basel IV' and the stability of the financial industry. Krecke, Elisabeth. GIS Reports. 2019. https://www.gisreportsonline.com/r/basel-iv/

v Bank for International Settlements, Finalizing Basel III.2017. https://www.bis.org/bcbs/publ/d424.pdf

oversight.[i] These requirements do not directly increase capital levels, but they raise operational complexity and model risk. This influences how banks manage risk, allocate resources and ensure regulatory compliance, by constraining internal risk model discretion, increasing compliance costs and enhancing supervisory and market scrutiny. These factors, collectively, incentivize more conservative risk assumptions, reallocation toward lower-risk assets and greater investment in data and governance infrastructure.

e. Capital Intensity

Capital intensity refers to the amount of regulatory capital required per unit of lending exposure. Higher capital intensity increases the cost of deploying balance sheet capacity, making certain types of lending less attractive. In practice, this leads banks to reallocate toward lower-risk weighted assets, optimize portfolio composition, and prioritize activities that generate higher returns per unit of capital.[ii]

3. CROSS-NATIONAL COMPARATIVE ANALYSIS—CANADA, THE U.S., THE EU AND AUSTRALIA

All four jurisdictions being studied continue to support and have committed to the Basel framework. Each jurisdiction has maintained enhanced capital requirements for systemically important banks. Moreover, the architecture of global banking regulations remains broadly aligned, even as national authorities exercise greater discretion in how reforms are implemented. Divergence in Basel implementation reflects the broader geopolitical fragmentation in global economic governance, as jurisdictions balance financial stability, domestic political pressures and banking sector competitiveness.

(Note: While the UK is not part of this analysis, it has finalized its Basel 3.1 rules and will begin applying them in January 2027. The UK initially delayed implementation because of uncertainty over the timing of peer jurisdictions; it is now expected to follow a timeframe and process broadly similar to the EU's.[iii])

Figure 1 below partly explains why Basel III implementation has proceeded relatively efficiently in some countries (Canada and Australia) and more slowly in others (the U.S. and the EU). In more concentrated banking systems, prudential regulators oversee a smaller number of dominant institutions, reducing coordination costs and making it easier to translate international standards into domestic rules. By contrast, the U.S. and the EU contain larger, more heterogeneous banking sectors, with more complex balance sheets, stronger capital-market activities and greater concerns about competitive neutrality. This has contributed to slower, more contested implementation, particularly around market-risk rules and the Fundamental Review of the Trading Book (FRTB).

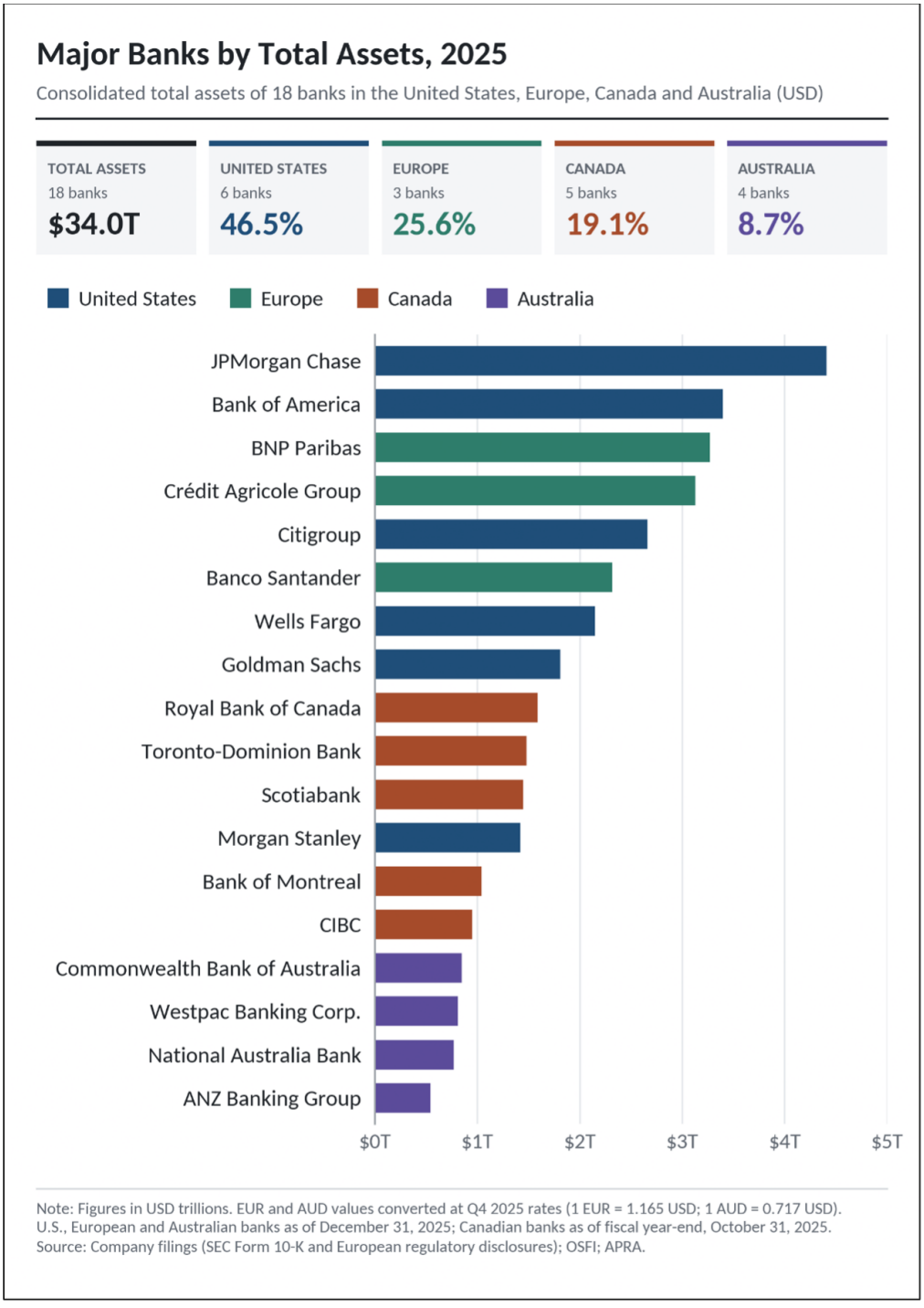
i OSFI, Pillar 3 Disclosure Guidelines for Domestic Systemically Important Banks. 2025. https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/pillar-3-disclosure-guideline-domestic-systemically-important-banks-sibs-2025

ii Gambacorta and Karmarkar. Leverage and Risk Weighted Capital Requirements. 2016. https://www.bis.org/publ/work586.pdf

iii Bank of England, Implementation of Basel 3.1. Final Rules. https://www.bankofengland.co.uk/prudential-regulation/publication/2026/january/implementation-of-the-basel-3-1-final-rules-policy-statement

The analysis proceeds across three analytical dimensions: (1) impact of institutional regulatory structure, (2) capital calibration, and (3) implementation timing.

Figure 1: Major Banks by Total Assets (Fiscal Year 2025)



Impact of Institutional Regulatory Structure

Canada

OSFI's regulatory philosophy is grounded in a principles-based and risk-focused approach to supervision, aimed at ensuring the safety and soundness of federally regulated financial institutions while allowing them to take reasonable commercial risks.[i] OSFI sets broad expectations for capital adequacy, liquidity, governance and risk management, relying on supervisory judgment and early intervention to address emerging vulnerabilities.[ii] Unlike the EU's multi-layered legislative process, OSFI has the authority to issue and finalize its own guidelines directly, allowing Canada to move through implementation more expediently.

Canada's highly concentrated banking system makes Basel III implementation particularly consequential for credit allocation and pricing. Canadian banks operate with mortgage-heavy lending portfolios under centralized supervision by OSFI, making the reforms both institutionally manageable and economically significant. Implementation decisions affect a small number of domestic systemically important banks (D-SIBs). These D-SIBs are referred to as the 'big six', and their assets account for more than 93% of the Canadian banking system.[iii] In addition to the big six, there are 29 small and medium-sized domestic chartered banks and 14 foreign subsidiary banks. Overall, the Canadian banking sector holds approximately $5.2 trillion in assets.[iv]

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i See OSFI, OSFI's principles-based approach: Encouraging smart, flexible regulation.2025 https://www.osfi-bsif.gc.ca/en/about-osfi/osfi-knowledge-centre/osfis-principles-based-approach-encouraging-smart-flexible-regulation

ii Ibid, OSFI. 2025.

iii The International Exposure of the Canadian Banking System. Friedrich et al, 2025. Bank of Canada.
Big six refers to; Royal Bank of Canada (RBC); Toronto Dominion- Canada Trust (TD); Bank of Montreal (BMO); Bank of Nova Scotia (Scotiabank); Canadian Imperial Bank of Commerce (CIBC); and National Bank of Canada.

iv *Increasing competition in Canadian Banking.* Fraser Institute. 2025.

Table 1: Implications
Analysis from the Bank of Canada[i] and the Bank for International Settlements[ii] suggests the following implications:

Lending	Higher RWAs increase the amount of regulatory capital banks must hold against a given stock of loans, raising the marginal capital cost of credit extension.
Profitability	Strong capital positions mitigate immediate stress; however, higher capital requirements reduce return on equity in capital-intensive business lines.
Balance Sheet Allocation	Banks are likely to reallocate toward lower-RWA assets and optimize portfolio composition to preserve capital efficiency.

The U.S.

The U.S. banking system differs from other jurisdictions in both its scale and institutional complexity. It operates under a dual federal–state chartering framework in which private banks may be supervised by either federal or state authorities. Oversight is fragmented across several regulators, including the Federal Reserve (the Fed), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC), rather than a single consolidated supervisor.[iii]

The largest U.S. global systemically important banks (G-SIBs) are subject to enhanced capital, liquidity, and supervisory requirements under the Basel framework. The scale and interconnectedness of these financial institutions allow them to influence global financial conditions. For example, marginal adjustments to capital calibration can materially affect global credit supply, cross-border competitiveness, and regulatory bargaining power within the Basel framework. These institutions include JPMorgan Chase ($4.56 trillion), Bank of America ($3 trillion), Citigroup ($2.4 trillion), Wells Fargo ($1.9 trillion), Goldman Sachs ($1.81 trillion) and Morgan Stanley ($1.2 trillion).[iv]

i Garcia and Schroth. Can regulating bank capital help prevent and mitigate financial downturns. Bank of Canada. 2021. https://www.bankofcanada.ca/2021/06/staff-analytical-note-2021-12/?utm_source

ii Cohen and Scatigna. 2014. *Bank for International Settlements.* https://www.bis.org/publ/work443.pdf

iii Federal Reserve Bank of San Franciso, *how does the U.S. banking system compare with foreign banking systems.* 2002. https://www.frbsf.org/research-and-insights/publications/doctor-econ/2002/04/us-banking-system-foreign/ See also, Lessambo, F., 2020. The US banking system. Springer International Publishing.

iv Federal Reserve Statistical Release. 2025. https://www.federalreserve.gov/releases/lbr/current See also, https://www.spglobal.com/market-intelligence/en/news-insights/articles/2026/3/50-largest-us-banks-by-total-assets-q4-2025-99048938 See also, See Regulatory Capital Rule, 90 Fed. Reg. 55,048 (December 1, 2025), https://www.govinfo.gov/content/pkg/FR-2025-12-01/pdf/2025-21625.pdf

Table 2: Implications

Relative Competitive Advantage	A more capital-neutral U.S. implementation of Basel III could result in lower effective capital intensity compared to European institutions, potentially enhancing U.S. banks' lending flexibility and return on equity.
Regulatory Fragmentation	Divergent calibration across jurisdictions may create an uneven regulatory landscape, increase cross-border competitive tensions and complicate supervisory coordination.
Risk Distribution Effects	If capital requirements are comparatively lower in the U.S., risk-bearing capacity may shift toward U.S. balance sheets, potentially increasing systemic vulnerability relative to more tightly capitalized European and Canadian banks.
Pressure on Global Basel Credibility	If the U.S. materially softens Basel III while the EU implements more strictly, the perception of Basel as a harmonized global standard weakens.

The EU

The EU banking system operates under a hybrid structure combining nationally organized markets with supranational regulation and supervision. Within the Eurozone, supervisory authority is centralized under the European Central Bank (ECB) through the Single Supervisory Mechanism (SSM), which directly oversees the largest and most systemically important institutions, representing approximately 80% of total banking assets. Smaller institutions remain under national supervision, subject to ECB oversight.[i] Basel standards in the EU are implemented through a multi-layered legislative process led by the European Commission, with supervisory coordination provided by the European Banking Authority. Unlike more centralized regulatory systems, reforms are required to be negotiated across member states, resulting in longer implementation timelines and greater political calibration.[ii]

Compared to more integrated systems such as Canada or Australia, the European banking sector is larger and more fragmented, with major national institutions dominating domestic markets. This structural diversity increases the political sensitivity of regulatory changes and contributes to a more gradual approach to implementation. The largest

i ECB, ESCB and the Euro system. European Central Bank. 2026. https://www.ecb.europa.eu/ecb/orga/escb

ii Ibid. European Commission. Basel III. 2024.

institutions by assets are directly supervised by the ECB under the SSM. The top European banks by assets: BNP Paribas (France) (€2.5T), Credit Agricole Group (France) (€2.47T), and Banco Santander SA (Spain) (€1.79T).[i, ii]

Australia

The Australian Prudential Regulation Authority (APRA), the primary financial-institutions regulator, has the legal authority under the *Banking Act (1959)* to align domestic rules with BCBS standards.[iii] The Australian banking system is highly concentrated around four major banks that provide a full range of institutional, commercial and retail banking. Australia and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation are the primary banks. There are smaller banks and credit unions that operate in different sectors and regions. The APRA has indicated that the 'big four' are D-SIBs and collectively they account for approximately 70-80% of the market share.[iv]

Australia resembles Canada's centralized prudential model under OSFI, with APRA playing a role broadly comparable to OSFI. This contrasts with the more fragmented U.S. structure, divided across the Fed, OCC, and FDIC, and the EU's hybrid arrangement combining ECB supervision with national authorities. This concentrated supervisory authority, combined with elevated pre-existing capital buffers allows the APRA to treat Basel III implementation as a recalibration rather than a binding constraint.

Capital Calibration

Canada

On June 19, 2026, OSFI lowered Canada's domestic stability buffer (DSB) to 3% from 3.5%, giving Canada's largest banks greater flexibility in how they deploy capital.[v] Unlike the U.S., where capital requirements are increasingly shaped by stress testing, Canada relies more directly on standardized constraints. OSFI also plans to reduce capital requirements for certain exposure classes, including construction, small and medium-sized enterprises (SMEs) and select bonds, for D-SIBs.[vi] Canada resembles Australia and the EU in relying on a rules-based output floor, and differs from the U.S., where stress testing rather than standardized risk weights sets the binding requirement.

i Data Source: S&P financial, 2025. https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/4/europes-50-largest-banks-by-assets-2025-88404022

ii Eurozone Banks are referred to countries that have adopted the Euro as its primary currency. Not all EU member states have adopted the Euro as their primary currency.

iii See Banking Act, (1959). Government of Australia.

iv KPMG, Big Four Major Banks, Results. 2025. https://kpmg.com/au/en/insights/industry/big-four-major-banks-australia-full-year-results-2025.html
See also, https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/4/asiapacifics-50-largest-banks-by-assets-2025-88395558

v OSFI, DSB. https://www.osfi-bsif.gc.ca/en/news/osfi-lowers-domestic-stability-buffer-30-so-canadas-largest-banks-can-deploy-more-capital. 2026

vi See Draft Capital Adequacy Requirements. OSFI. https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/draft-capital-adequacy-requirements-guideline-2027-letter 2025.

The U.S.

The U.S. regulatory framework increasingly separates Basel compliance from binding capital constraints.[i] Although Basel III implementation is proposed, capital requirements for large banks are primarily determined through supervisory stress testing rather than standardized risk weighted calculations. This shifts the system from a rules-based constraint to a scenario-based calibration mechanism for already well-capitalized banks. Moreover, Basel functions less as a binding global standard and more as a reference point within a domestically driven supervisory regime.

The U.S. approach reflects a more flexible regulatory model, where capital rules are shaped by both domestic priorities and international standards. In contrast to Canada, U.S. regulators place greater emphasis on supporting credit growth, market competitiveness and bank profitability. This weakens the consistency of Basel III implementation across jurisdictions and leads to more variation in how risk is assessed.[ii]

While the original Basel III Proposal would have raised capital modestly, the broader March 2026 re-proposed package — netting Basel requirements against the stress capital buffer and G-SIB surcharge — is expected to result in a small net decrease in capital requirements for the largest banks.[iii] The Fed has suggested that the impact on these institutions will be broadly comparable to that expected in the UK.[iv] For G-SIBs, the reforms introduce new and higher capital requirements for potential credit losses and derivative exposures. Moreover, higher projected losses under supervisory stress tests further raise capital requirements. Although some balance sheet expansion is a natural consequence of economic growth and inflation, increases driven primarily by these factors do not, in themselves, indicate a corresponding increase in systemic risk.[v]

The Fed has emphasized that supervisory stress testing remains the primary driver of capital requirements for large banks. This approach reflects a broader effort to balance financial stability with credit availability and global competitiveness. This position has been reinforced by recent remarks from Fed Vice-Chair Michelle W. Bowman, who has emphasized the need to avoid excessive capital increases that could constrain lending and reduce competitiveness.[vi]

This perspective is echoed by industry leaders. In his 2026 annual letter, Jamie Dimon (JP Morgan Chase) warned that an increasingly complex and uncertain risk environment requires regulatory frameworks that preserve flexibility and avoid unnecessarily constraining

i Ibid, Michelle. W. Bowman, March 12th, 2026.

ii U.S. regulators invited comments on the proposed regulatory changes. It is suggested that a further decrease in capital requirements from stress testing based on the proposed stress testing changes including averaging concept from last year. https://www.federalregister.gov/documents/2026/03/27/2026-05959/regulatory-capital-rule-category-i-and-ii-banking-organizations-banking-organizations-with

iii Ibid, Michelle. W. Bowman, March 12th, 2026.

iv Ibid, Michelle. W. Bowman, March 12th, 2026.

v Ibid, Michelle. W. Bowman, March 12th, 2026.

vi Ibid, Michelle. W. Bowman, March 12th, 2026.

credit provision.[i] Dimon emphasized the growing fragmentation of the global economic and financial environment, reinforcing the view that regulatory approaches (including capital frameworks) are increasingly shaped by domestic priorities rather than uniform international standards. These remarks further emphasize the trade-off: while higher capital strengthens resilience, excessive tightening risks reducing lending capacity and slowing economic activity, particularly under uncertain macroeconomic conditions.

The EU

The EU began implementing Basel III reforms in 2013 through the Capital Requirements Regulation and Directive framework.[ii] Subsequent Basel III measures have been adopted legislatively but are being introduced gradually through extended transition periods and phased calibration.[iii]

The phased implementation of Basel III reduces the immediate binding effect of higher capital requirements, allowing European banks to adjust their balance sheets gradually over time. This diffuses the impact of regulatory tightening, limiting short-term disruptions to lending and profitability. However, this delay also weakens the short-term comparability and credibility of capital ratios across jurisdictions. As capital requirements become binding at different speeds across countries, the EU's gradual approach contributes to divergence in effective capital constraints relative to more immediate implementations, such as Canada. In contrast to the U.S., where constraints are shifted toward supervisory stress testing, the EU diffuses adjustment through time, rather than altering the structure of the constraint itself.[iv]

Australia

Australia demonstrates that when banks enter Basel III implementation with already elevated capital levels, the reforms function as a recalibration rather than a constraint. This contrasts sharply with Canada, where capital requirements are more likely to bind, and with the U.S., where binding constraints are shifted toward supervisory stress testing. However, more recently APRA has made plans to adjust the IRB approach for small and medium-sized banks.[v]

APRA framed the reforms as a recalibration rather than a material tightening of capital. The objective was to preserve already strong capital buffers while enhancing risk sensitivity and ensuring that higher-risk lending attracted appropriately higher capital charges. The framework sought to improve the comparability of capital ratios across institutions both domestically and internationally, while promoting competitive neutrality between large and smaller banks. Furthermore, APRA

i Salinas, Sara. CNBC. 2026. https://www.cnbc.com/2026/04/06/jpmorgan-ceo-jamie-dimon-annual-letter-risks.html

ii See, European Banking Authority. *The Basel framework: the global regulatory standards for banks*. 2026 https://www.eba.europa.eu/activities/basel-framework-global-regulatory-standards-banks

iii Ibid, European Commission. Basel III. 2024

iv European Commission. Basel III. 2024. https://finance.ec.europa.eu/news/basel-iii-2024-07-25_en

v See APRA IRB new pathways. https://www.apra.gov.au/news-and-publications/finalising-new-pathway-internal-ratings-based-accreditation. 2025

emphasized reducing unnecessary operational complexity for smaller institutions, aiming to strengthen resilience without imposing disproportionate compliance burdens.[i]

Implementation Timing

Canada

OSFI's implementation of the Basel III framework forms the foundation of Canada's capital and liquidity standards. OSFI translates international minimum requirements into domestic guidance to ensure Canadian banks maintain sufficient buffers to absorb shocks and support financial stability.[ii] Canada completed its domestic implementation of the revised Basel III reforms in early 2024. The current output floor of 67.5% is binding.[iii] As a result, Canadian banks face earlier and more tangible adjustments in capital allocation, particularly in mortgage and commercial real estate lending. This places Canada in a structurally tighter capital environment in the short term, even as it strengthens long-term funding credibility. OSFI has paused further increases in the output floor,[iv] and banks will be given two years' notice before any increase takes effect.

The U.S.

The Fed took a proactive approach to implementing Basel III between 2013 and 2015, including higher minimum capital ratios, capital conservation buffers, and enhanced regulatory standards for systemically important banks.[v] U.S. banks were also subject to new regulations originating in the *Dodd-Frank Act* of 2010.[vi] These included compulsory regulatory stress tests for large banks with more than $50 billion in total assets.[vii] Most notably, the Collins Amendment under the *Dodd-Frank Act* of 2010 requires U.S. banks to calculate their capital adequacy using regulators' standardized approaches as well as their own internal models, and to apply the higher of the two outputs.[viii] Furthermore, the *2018 Economic Growth, Regulatory Relief, and Consumer Protection Act* raised the threshold for banks considered systemically important from $50 billion to $250 billion.

The EU

The EU has adopted Basel III reforms through its legislative process; however, implementation is characterized by extended transition periods and phased calibration.[ix] This reflects the political and institutional

i Ibid, APRA. 2021

ii Ibid, 2025. Office of the Superintendent of Financial Institutions (OSFI).

iii Capital Adequacy Requirements, 2026. OSFI, https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/capital-adequacy-requirements-car-guideline-2026

iv See, Statement from the Superintendent of Financial Institutions on the Basel III standardized capital floor level. OSFI, February 2025. https://www.osfi-bsif.gc.ca/en/news/statement-superintendent-financial-institutions-basel-iii-standardized-capital-floor-level

v Michelle. W. Bowman, Capital Rules for the Real Economy. Speech Transcript, March 12th, 2026. https://www.federalreserve.gov/newsevents/speech/bowman20260312a.htm

vi See, *Dodd-Frank.* U.S. Congress. 2010.

vii Siedlarek, Jan-Peter. 2024. "The Evolution of US Bank Capital around the Implementation of Basel III." Federal Reserve Bank of Cleveland, Economic Commentary 2024-07. https://doi.org/10.26509/frbc-ec-202407

viii See, *Dodd-Frank.* U.S. Congress. 2010. *Collins Amendment.*

ix European Commission. Basel III. https://finance.ec.europa.eu/news/basel-iii-2024-07-25_en. 2024

complexity of coordinating across multiple member states, as well as sensitivity to balance sheet impacts for large national banking systems. As a result, the EU approach delays the immediate application of stricter capital requirements, shifting the adjustment process over a longer time horizon.[i]

More recently, the European Commission provided an update on the competitiveness of the banking sector. The Commission indicated that it will adopt legislative proposals to amend the banking regulatory framework by the first quarter of 2027.[ii] These measures include:

- make bank-specific capital requirements (Pillar 2 requirements) and supervisory guidance more transparent and targeted;
- simplify and further harmonize macroprudential and resolution buffers;
- encourage authorities to improve their coordination mechanisms so that they set prudential requirements in an ever-more coordinated way;
- introduce targeted changes enabling the European Banking Authority to deliver further proportionality, simplification, and automation of bank reporting.

Australia

Australia represents a distinct case of early and decisive implementation with minimal disruption of lending capacity,[iii] enabled by strong pre-existing capital buffers, a highly concentrated banking system and centralized supervision, allowing Australian banks to transition to the finalized framework with limited incremental adjustment. Australia began implementing the Basel III capital framework in January 2013 and was among the first countries to implement Basel III in January 2023.[iv]

4. COMPARATIVE SYNTHESIS

Read across the four jurisdictions, the three analytical dimensions do not vary independently. Supervisory structure shapes both how quickly a jurisdiction implements and which instrument ends up binding.

a. Institutional structure: The type of discretion each jurisdiction exercises follows from its supervisory architecture. OSFI and APRA, as single authorities able to issue guidance directly, exercise discretion through calibration — pausing a floor, lowering a buffer or its range, adjusting an exposure class. The EU exercises it through legislative timing and Article 461a deferrals. The U.S. exercises it through supervisory judgment in scenario design. Three

i Ibid, European Commission. Basel III. 2024

ii European Commission. Report on the competitiveness of the banking sector. https://ec.europa.eu/commission/presscorner/detail/en/qanda_26_1638 2026

iii APRA. 2021, See APRA, “APRA finalises new bank capital framework to strengthen financial system resilience.” 2021. https://www.apra.gov.au/news-and-publications/apra-finalises-new-bank-capital-framework-designed-to-strengthen-financial

iv Ibid, APRA. 2021.

modes of discretion across four jurisdictions, because Canada and Australia share one. This is a separate axis from the binding instrument, where the division is twofold: three rules-based jurisdictions against one that is stress-test led.

b. Capital calibration: The Basel minimum is common to all four jurisdictions; what sits above it is not. Australia absorbed the reforms against a pre-existing buffer, reallocating capital across portfolios rather than raising it. Canada's floor binds at the portfolio level for some IRB banks but is broadly capital-neutral in aggregate, because the RWA increase from the floor is offset by relief from removing the 1.06 modelled-RWA scaling factor. The EU expects a modest increase of roughly 7.8% in Tier 1 minimum requirements, but not until full loading. The U.S. expects a small net decrease once the Basel requirements are netted against the stress capital buffer and the G-SIB surcharge. One jurisdiction is therefore tightening on a long horizon, one is loosening slightly, and two are approximately neutral. The spread runs from roughly −5% to +8% under a nominally common standard.

c. Implementation timing: Australia and Canada completed implementation before the EU brought the Capital Requirements Regulation III (CRR III) into force and before the U.S. had a finalized rule. Both are concentrated systems with a single prudential supervisor. The EU and the U.S., which must coordinate across member states and across three federal agencies respectively, are the two jurisdictions still phasing in or still proposing. Four cases cannot establish that supervisory concentration causes faster implementation, and other factors plainly contribute: Australia's pre-existing capital levels, the scale of U.S. trading-book exposures. But no case here runs against the pattern.

The comparison therefore yields a system aligned in architecture and divergent in operation. Each jurisdiction combines a binding instrument, a timetable, and a mode of discretion differently, producing four distinct configurations rather than four settings of a single dial. All four can accurately state that they have implemented Basel III finalization. What binds a Canadian bank, an American bank, a European bank, and an Australian bank is in each case a different combination.

Table 3: Comparative Matrix : Basel III Finalization Implementation Across Juridictions

Data as of July 2026 (OSFI, European Commission/EBA, U.S. Federal Reserve/OCC/FDIC, APRA, BCBS).[i]

Dimension	Canada	United States	European Union	Australia
IMPLEMENTATION TIMING				
Implementation start	2024 — 2017 reforms concluded early 2024	Not finalized — re-proposed 19 Mar 2026; comments due 18 Jun 2026	2025 — CRR III in force 1 Jan 2025 (CRD VI transposed Jan 2026)	2023 — revised framework effective 1 Jan 2023
Output-floor phase-in	67.5%; increase to 72.5% paused indefinitely (Feb 2025); ≥2 yrs notice before resuming	Floor treatment within the Mar 2026 re-proposal; and Collins floor amendment (Dodd-Frank Act)— already binds higher of standardized vs. IRB	50% (2025) → 72.5%, full floor 1 Jan 2030; transitional relief to 2032	72.5% since 1 Jan 2023 (no transitional phase-in)
Key binding constraint	Rules-based (output floor / standardized RWs)	Stress-testing (scenario-based)	Rules-based (phased)	Rules-based (recalibration off high base)
Binding-constraint timeline	Floor increase paused; current rules in force	Uncertain; implementation ~2027 if finalized	Phased to 2030 (FRTB) (Binding 2027)	Already absorbed
CAPITAL CALIBRATION				
CET1 minimum (current)	~11% (OSFI expectation, all D-SIBs)	~4.5% + SCB + G-SIB surcharge	~4.5% + CCB+ Pillar 2 + national buffers	Higher pre-existing baseline
Capital trajectory (post-finalization)	Broadly neutral	Small net decrease expected (Mar 2026 re-proposal)	Small net decrease expected (Mar 2026 re-proposal)	Minimal change
Mortgage risk weight[2]	LTV-banded; ≤80% LTV ~35%, rising with LTV	LTV-banded (Mar 2026 re-proposal)	LTV-banded, phased to 2030	LTV-banded; higher local calibration
CRE risk weight[2]	LTV-banded (was flat 50%)	LTV-banded (stress-tested overlay)	LTV-banded, phased to 2030	Already higher local calibration

i **BCBS:** Basel III finalization replaced the flat 35% (residential) / 50% (commercial) Basel II risk weights with loan-to-value-banded schedules (roughly 20%–105%+). Single before/after figures are illustrative of direction only, not literal rule values; actual weights depend on LTV, occupancy, repayment type, and insurance.
Canada: OSFI's published estimate (Dec 2024) is that the 2017 Basel III reforms are broadly capital-neutral for Canadian banks even at a fully phased-in 72.5% floor: the ~$85B RWA increase from the capital floor is roughly offset by ~$90B of relief from removing the 1.06 modelled-RWA scaling factor.
United States: 19 Mar 2026 the Fed, OCC, and FDIC re-proposed the Basel III package (comments due 18 Jun 2026); agencies expect overall capital to "modestly decrease." EU: CRR III applied 1 Jan 2025; output floor reaches 72.5% on 1 Jan 2030 with relief to 2032.
EU: CRR III applied 1 Jan 2025; output floor reaches 72.5% on 1 Jan 2030 with relief to 2032.
Australia: 72.5% floor set from 1 Jan 2023 with no Basel transitional ramp.

Dimension	Canada	United States	European Union	Australia
Output-floor level	67.5% (increase paused)	Not binding (stress-test dominant)	Phasing 50% → 72.5% by 2030	72.5%
Est. capital impact	~Capital neutral even at 72.5% per OSF[1]	Small net decrease (modest ↑ on Basel III Proposal, offset by G-SIB surcharge ↓)	Modest: ~+7.8% Tier 1 (~€5.1B total-capital shortfall); absorbed to 2032	Minimal (already absorbed)
INSTITUTIONAL REGULATORY STRUCTURE				
Regulator type	Single (OSFI)	Fragmented (Fed, OCC, FDIC)	Hybrid (ECB + national)	Single (APRA)
Supervisory philosophy	Principles-based, risk-focused	Stress-testing + rules	Legislative coordination + national	Rules-based, high baseline
Discretion type	Standardized constraints	Supervisory judgment	Political negotiation	Pre-existing buffers
Divergence type	Rules-based, front-loaded (final floor paused)	Rules de-emphasized (stress-test led)	Legislative delays	Recalibration, not constraint

Table 4: Capital Impact Comparison: CET1 Benchmarks and RWA Impact

Data as of July 2026 (OSFI, U.S. Federal Reserve/OCC/FDIC, EBA, APRA)

Metric	Canada	United States	European Union	Australia
Current CET1 benchmark	OSFI expectation: 11% of RWA (4.5% minimum + 2.5% conservation buffer + 1.0% D-SIB surcharge + 3% DSB). D-SIB average ~13.5% (April 2026).	Bank-specific; driven by the 4.5% minimum, the stress capital buffer, and the G-SIB surcharge	Bank-specific; varies by CRR III/ CRD buffers, Pillar 2 requirements, and national authorities.	APRA minimum: 10.25% for major banks (4.5% minimum + 3.75% conservation buffer + 1.0% D-SIB buffer + 1.0% baseline CCyB). Major-bank average ~12.1–12.3% (2025).
Output floor level	Canada started at 65% and then increased it to 67.5%; increase to 72.5% paused indefinitely (Feb 2025).	No equivalent binding output floor; large-bank capital is set primarily through stress testing and the stress capital buffer.	50% (2025) → 72.5% by 2030; transitional relief running from 2032–33.	72.5% since 1 Jan 2023 (no transitional phase-in)

Metric	Canada	United States	European Union	Australia
Estimated RWA / capital impact	Fully phased-in floor adds ~C$85bn in RWA but is broadly capital-neutral once ~$90bn of relief from removing the 1.06 modelled-RWA scaling factor is netted. Per-bank CET1 impact ~0–86 bps for D-SIBs.[i]	Basel III Proposal alone: +1.4% CET1 for Category I/II firms. Broader package (incl. G-SIB surcharge + stress-test changes): −4.8%. System-wide CET1 relief ~$87.7bn.	EBA (2024), at full EU implementation in 2033: total Tier 1 MRC +7.8%; Group 1 +8.6%; G-SIIs +12.2%; Group 2 +3.6%. Total capital shortfall ~€5.1bn (Tier 1 ~€0.9bn).[ii]	Net impact intended to be capital-neutral; no new capital required. Banks entered already meeting the "unquestionably strong" ~10.5% benchmark, so the finalisation was absorbed with minimal adjustment.
Interpretation	Binds at the portfolio level for some IRB banks, but broadly capital-neutral in aggregate due to offsetting RWA relief; banks hold large surpluses.	Implementation is broadly capital-neutral to mildly deregulatory in aggregate; designed to support lending and competitiveness.	Gradual, but becomes more material once fully loaded — driven mainly by the output floor and operational risk.	Recalibration, not constraint — elevated pre-existing buffers meant the finalised framework bound little; among the first jurisdictions to implement.

5. CHALLENGES AND IMPLICATIONS

Where Will the Effects Materialize?

Differences in capital calibration across jurisdictions may influence the geographic distribution of financial risk. If certain jurisdictions adopt more capital-neutral interpretations of the reforms while others implement stricter requirements, banks operating under lower capital constraints could have a competitive advantage in lending and capital markets activities. Furthermore, this dynamic can encourage financial activity shifts toward jurisdictions with less demanding capital frameworks. Such migration may redistribute rather than reduce systemic risk, potentially concentrating vulnerabilities in parts of the global financial system that are subject to weaker constraints.

Regulatory divergence affects cross-border supervisory coordination. Large banks operate across multiple jurisdictions and are subject to oversight by several national regulators. When capital frameworks evolve differently across countries, supervisory cooperation, resolution planning, and crisis management become more complex. In periods of financial stress, inconsistent capital standards may hinder coordinated regulatory responses and create uncertainty regarding loss absorption and capital adequacy across internationally active banks.

i The ~$85bn RWA increase and broadly capital-neutral aggregate are OSFI's published estimates. The "0–86 bps" per-bank CET1 range could not be independently confirmed in public OSFI sources.

ii EBA third mandatory Basel III monitoring report (Oct 2024), at full EU implementation in 2033. 8.6% is the Group 1 figure; the G-SII figure is 12.2%. Australia: APRA requires major banks to hold a minimum CET1 of 10.25% and framed the Basel III finalisation as capital-neutral, requiring no new capital; the 72.5% output floor has applied since 1 Jan 2023 with no transitional phase-in.

Context for Divergence

The Basel frameworks have always permitted national discretion. Pillar 2 add-ons allow national regulators to require additional capital above Pillar 1 minimums. National macroprudential buffers are built into the framework. Transitional arrangements and phase-in schedules are standard practice. In this sense, the divergence documented in this report is not unexpected. It reflects the frameworks operating as designed. The central point is therefore whether the current divergence may also reflect represents something genuinely new, or merely regulatory authorities exercising long-standing flexibility.

The following three factors distinguish divergence from historical variation:

Structural: Historical discretion operated through add-ons to a harmonized core. Basel III finalization permits structural variation in how constraints operate. The U.S. substitutes stress-testing for standardized rules; the EU phases in over five years; Canada front-loaded its rules and then paused the final step.

Deliberate and Strategic: Earlier Basel implementations pursued convergence; regulators now explicitly optimize for domestic priorities. The U.S. Fed prioritizes lending flexibility, while the EU protects member-state balance sheets. In contrast, Canada signals prudential credibility, which leads to intentional divergence, not residual variation.

Geopolitical erosion of coordination: Prior Basel implementations assumed regulators shared a goal of harmonization. Current implementation occurs in a fragmented environment where global coordination is weaker. Jurisdictions explicitly choosing domestic objectives over Basel coherence.

Limitations

The Basel framework has always incorporated flexibility and national discretion as jurisdictions translate international standards into domestic regulation. Core minimum standards remain internationally agreed, and variation in implementation has always been part of the process. The argument advanced in this report is therefore narrower: current implementation choices may cause capital constraints to bind differently across jurisdictions, creating uneven incentives for internationally active banks. The risk, therefore, is not the absence of Basel adoption, but the possibility that formal adoption increasingly coexists with substantively different regulatory effects.

This analysis is subject to several limitations. The divergence it discusses is observed early in the phase-in process; as the EU and Canada approach the fully implemented 72.5% output floor, effective constraints may partially re-converge, meaning some of the variation described here could prove transitional rather than structural. The analysis also relies on announced rules and supervisory statements rather than realized bank behaviour, so whether divergent calibration produces measurably different lending and pricing outcomes remains an open empirical question. Lastly, four jurisdictions cannot represent the full Basel membership, and a wider sample may reveal different patterns outside advanced economies.

6. CONCLUSION

This report reveals that Basel III implementation creates a global system that is convergent in principle but divergent in practice, where formal adoption increasingly coexists with substantively different regulatory effects. The framework is being implemented through four distinct configurations of binding instrument, implementation timetable, and mode of national discretion. All four jurisdictions remain formally committed to the Basel Accord, yet each has built a different institutional architecture around it, and the divergence now lies in what binds rather than in headline calibration.

Within that landscape, Canada occupies a qualified middle path: rules-based like the EU and Australia rather than stress-test led like the U.S., earlier than the EU in timing, but tailored domestically through a paused output floor and a reduced stability buffer.

It remains to be seen whether the divergent approaches will lead to a concentration of risk in jurisdictions with weaker constraints and hinder supervisory coordination in the event of a crisis.

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