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Bank Capital Requirements

Basel Committee Releases Second Consultative Document on Revisions to the Standardized Approach for Credit Risk

SUMMARY

The Basel Committee recently published a second consultative paper on proposed "Revisions to the Standardised Approach for Credit Risk" (the "*Second Consultative Document*") that would substantially revise certain aspects of the Basel II standardized approach for risk-weighting credit exposures (the "*Standardized Approach*").[1]

The Second Consultative Document incorporates a number of changes from the Basel Committee's first proposal (the "*First Consultation*") from December 2014 to address the concerns expressed by commenters, including a number of changes in response to comments from U.S. banking organizations and trade associations.[2] Notably, the Second Consultative Document would revise: (i) the risk-weighting methodologies for bank and corporate exposures; (ii) the risk-weighting methodologies for real estate exposures (commercial and residential real estate) to introduce risk-sensitivity based on whether the repayment of the exposure is dependent on cash flows generated by the property and the exposure's loan-to-value ("*LTV*") ratio; (iii) the treatment of off-balance sheet commitments; and (iv) the credit risk mitigation framework, to remove options for banking organizations to use internal models or estimates for estimating haircuts of credit risk mitigants.

In connection with its finalization of the proposed revisions to the Standardized Approach, the Basel Committee will conduct a quantitative impact study ("*QIS*") using data as of December 31, 2015 to assist with the calibration of the risk weighting for each of the affected exposure classes. The Basel Committee has not indicated whether it will seek additional comments on these calibrations once the QIS is complete.

Contemporaneously with the release of the Second Consultative Document, the U.S. Federal banking agencies released a joint statement indicating that they will "consider the Basel Committee proposals with the goal of developing a stronger and more transparent risk-based capital framework for the largest institutions," but intend to apply any new standard "primarily to large, internationally active banking organizations and not to community banking organizations."[3] It therefore remains to be seen if, when and how any revisions to the Basel Standardized approach ultimately will be adopted in the U.S., including whether such adoption would create another floor for purposes of Section 171 of the Dodd-Frank Act (the "*Collins Amendment*").

Annex A provides a summary comparison of the key provisions of the currently applicable U.S. Standardized Approach, the original revisions in the First Consultation and the proposed changes from the Second Consultative Document.

Comments on the Second Consultative Document are due by March 11, 2016.

BACKGROUND

The Standardized Approach, first adopted as part of the Basel II Capital Accords, is one of two methods a banking organization can use to measure its credit exposure to various counterparties and form the basis for the denominator of its risk-based capital ratio. The U.S. Federal banking agencies adopted a standardized approach in 2013 based in substantial part upon the standardized approach in Basel II—which previously had not been adopted for U.S. banking organizations—to replace the agencies' Basel I-based capital rules.[4]

Although the Basel III capital framework substantially strengthened the criteria for the inclusion of certain capital components in the numerator of a banking organization's capital ratios and strengthened the resulting corresponding minimum overall capital requirements, the framework did not generally revise the measurements and calculations of the components of the denominator of the risk-based capital ratios. As discussed in a recent speech by the Basel Committee's Chairman, Stefan Ingves, the Basel Committee's "Basel III reform package," including revisions to the Standardized Approach, seeks to address the Basel Committee's concerns relating to the risk measurements that it believes were unaddressed by Basel III, specifically the reliance on banking organizations' own estimates of risk or internal models and risk—weighted approaches—that is, the advanced internal ratings based approach (the "*AIRB Approach*")—that are "essentially the same as they were before the crisis."[5] The revisions to the Standardized Approach represent the first part of Basel Committee's reform package and are intended to serve as the foundation of a "floor" for the AIRB Approach in the international Basel framework – much as the Collins Amendment already does for U.S. banking organizations subject to the agencies' version of the AIRB Approach.[6] The Second Consultative Document, however, did not further address the Basel Committee's earlier consultative document on the exact mechanics of how such a floor would operate as part of the Basel framework.[7]

OVERVIEW OF SECOND CONSULTATIVE DOCUMENT

The First Consultation sought to modify the existing Standardized Approach by: (i) reducing reliance on external credit ratings (including the elimination of the reliance on external credit ratings for corporate and bank exposures); (ii) increasing risk sensitivity; (iii) reducing national discretion to deviate from the framework through the elimination of various alternative exposure measurement methodologies; (iv) strengthening the comparability of the capital calculations under the Standardized and AIRB Approaches by increasing the calibration of various exposures such as off-balance sheet credit commitments under the Standardized Approach; and (v) enhancing the comparability of capital requirements across banking organizations. As a result, the First Consultation would have substantially revised the measurement criteria for a number of exposure classes and sought to change the credit risk mitigation framework.

In light of the extensive comments received, the Second Consultative Document further revised the Basel Committee's proposed changes to the Standardized Approach. These changes are summarized below. In particular, the Second Consultative Document reintroduces the use of external credit ratings for certain exposure classes and for purposes of evaluating the haircuts on collateral under the Standardized Approach's credit risk mitigation framework, in a "non-mechanistic manner" by imposing a due diligence requirement on banking organizations. This change, of course, would not affect U.S. banking organizations due to Section 939A of the Dodd-Frank Act which prohibits the use of credit ratings for these and other purposes. In addition, the Second Consultative Document permits national supervisors to deviate from the global standard and require a more conservative treatment if they consider it necessary to reflect jurisdictional specificities."[8]

In certain respects, as highlighted below, the revisions proposed in the Second Consultative Document are similar to aspects of the U.S. version of the Standardized Approach or alternative approaches the U.S. Federal banking agencies have previously considered.[9]

PROPOSED REVISIONS TO EXPOSURE CLASSES

1. Banking Organizations

In the Basel II Standardized Approach, exposures to banking organizations are assigned a risk weight by national supervisors either: (i) assigning all banking organizations in a given country a risk-weight category less favorable than assigned to claims on the sovereign of that country; or (ii) assigning a risk weight based on the external credit assessment of the bank itself, with claims on unrated banking organizations risk-weighted at 50%. Risk weights under the Basel II approach range from 20% to 150%. In the First Consultation, the Basel Committee proposed to revise this approach to instead assign risk weights to bank exposures by using two key risk drivers: the bank's Common Equity Tier 1 ("*CET1*") risk-based capital ratio, as a measure of capital adequacy, and a net non-performing assets ("*NPA*") ratio, as a measure of asset quality. Risk weights under the First Consultation ranged from 30% to 300%.

The Second Consultative Document acknowledges the limitations of the proposal in the First Consultation, including concerns with comparability of a net NPA ratio under different accounting regimes, and proposes to replace the previous CET1- and NPA-based risk drivers with two methods for risk-weighting exposures to banking organizations, depending on whether a jurisdiction allows the use of external credit ratings for regulatory purposes: the External Credit Risk Assessment Approach ("ECRA") and the Standardized Credit Risk Assessment Approach ("*SCRA*"). The ECRA uses a "base" risk weight based on the counterparty's external credit rating, while the SCRA requires classification of exposures into one of three "grades"—A, B, or C, based on whether the counterparty (A) has adequate capacity to meet its financial commitments (including exceeding minimum risk-based and leverage capital requirements), (B) is subject to substantial credit risk (with repayment capacities dependent on stable or favorable economic or business conditions), or (C) has material default risks and limited margins of safety or has breached a defined "trigger" by breaching any published and binding minimum regulatory requirements for leverage, liquidity and risk-based capital ratios or receiving an adverse audit opinion. An objective criterion based on OECD country ratings for sovereign exposures is proposed as a "risk-weight floor" for each grade bucket. Notably, each method presented in the Second Consultative Document includes a due diligence requirement that will require subject banks to undertake an independent credit analysis, irrespective of the third-party rating involved.

Risk weights for bank exposures under the Second Consultative Document range from 20% to 150% under the ECRA method, and from 50% to 150% under the SCRA method. Short-term interbank exposures of less than three months are eligible for lower risk weights under either approach.

2. Corporates

Under the Basel II Standardized Approach, corporate exposures are assigned either standard risk weights ranging from 20% to 150% based on the external credit rating of the counterparty, or, in an exercise of national discretion, a flat 100% risk weight. In the First Consultation, in part to "reduce mechanistic reliance on ratings," the Basel Committee proposed to assign risk weights ranging from 60% to 300%, using revenue and leverage as the key risk drivers.

Similar to the approach for bank exposures, the Second Consultative Document proposes to replace the leverage- and revenue-based risk drivers with two methods for risk-weighting corporate exposures depending on whether a jurisdiction allows the use of external credit ratings for regulatory purposes: a "base" risk weight based on external credit ratings of the corporate counterparty ranging from 20% to 150%, or a risk weight of 75% for exposures to counterparties meeting the criteria to be considered "investment grade" and 100% for all other corporate exposures. "Investment grade" generally means that the entity has an "adequate capacity to meet [its] financial commitments (including repayments of principal and interest) in a timely manner, irrespective of the economic cycle and business conditions" in a manner substantially similar to the U.S. Federal banking agencies definition of the same term.[10] In addition, a lower risk weight of 85% is proposed for exposures to small and medium entities ("*SMEs*"), using the AIRB Approaches definition.

3. Real Estate

The Basel II Standardized Approach contains two exposure categories in which the risk-weight treatment is based on the collateral provided to secure the relevant exposure, rather than on the counterparty: exposures secured by residential real estate (risk weighted at 35%) and exposures secured by commercial real estate (risk weighted at 100%). In order to increase the risk sensitivity of real estate exposures, the First Consultation proposed to introduce two specialized lending categories linked to real estate (under the corporate exposure category) and specific operational requirements for real estate collateral to qualify the exposures for the real estate categories. Under the First Consultation, risk weights for (i) exposures secured by residential real estate ranged from 25% to 100% based on the LTV and debt servicing coverage ("*DSC*") ratios and (ii) exposures secured by commercial real estate ranged from 75% to 120% based on the LTV ratio.

The Second Consultative Document proposes to combine the treatment of all real estate exposures into a single exposure class, instead of distinguishing between specialized real estate exposures and other exposures, and proposes to remove the DSC ratio as a risk driver for residential real estate by instead requiring an assessment of the borrower's ability to pay as a key underwriting criterion. As revised, risk weights for each exposure type (commercial and residential) are instead based on the LTV ratio at origination as the principal risk driver. However, to apply the preferential risk weights (as low as 25% for residential and 60% for commercial), additional underwriting requirements for quality of collateral and documentation requirements must be met (if not met, a 150% risk weight is applied). For both residential and commercial exposures, the range of applicable risk weights is much higher if repayment is materially dependent on cash flows generated by the property (ranging from 70% to 120% for residential exposures, and from 80% to 130% for commercial exposures).

The revisions to real estate exposures proposed in the Second Consultative Document are similar to aspects of alternative approaches the U.S. Federal banking agencies considered in their 2012 proposal to revise the U.S. Standardized Approach but ultimately did not adopt when the rules were finalized in 2013.[11] For example, the 2012 proposal similarly (i) relied on the LTV ratio as the principal risk driver for both residential and certain commercial real estate exposures, (ii) incorporated the concept of minimum underwriting standards, and (iii) assigned a 150% risk weight to most asset, development or construction (ADC) exposures. However, the 2012 proposal (i) would have introduced specific underwriting criteria as prerequisites to classifying residential real estate to a lower risk category, rather than as a general requirement for all real estate exposures as proposed in the Second Consultative Document, and (ii) did not subdivide real estate exposures based on whether repayment would be materially dependent on cash flows generated by the property as proposed in the Second Consultative Document.

4. Off-Balance Sheet Commitments

The Basel II Standardized Approach specified risk weightings for commitments using credit conversion factors ("*CCFs*") based on original maturity: 20% CCF for commitments with an original maturity of up to one year and 50% CCF for commitments with an original maturity over one year. The Basel II CCFs for other off-balance sheet items included, (i) 0% for unconditionally cancellable commitments, (ii) 100% for direct credit substitutes and acceptances, (iii) 100% for sale and repurchase agreements and asset sales with recourse, and (iv) 100% for lending of banking organizations' securities or posting of securities as collateral, including where arising out of repo-style transactions. In the First Consultation, the Basel Committee proposed aligning CCFs with those applied under the AIRB Approaches, except in the case of the 0% CCF for unconditionally cancellable commitments, for which it proposed a 10% CCF. The First Consultation proposed a 75% CCF for other commitments, in place of the 20% and 50% CCFs under Basel II.

The Second Consultative Document proposes to narrow the scope of commitments qualifying for the preferential treatment for unconditionally cancellable commitments to retail commitments (for example, credit cards), with CCF to be calibrated between 10% and 20%, and to treat all other commitments as general commitments. Based on the empirical data gathered under the Basel Committee's first QIS, the Second Consultative Document proposes CCFs for other commitments to be calibrated between 50% and 75%, a significant increase over the 20% to 50% range under the current Standardized Approach.

5. Other

- ***Defaulted Exposures:*** Although not included in the First Consultation, the Basel Committee proposes that the definition of "past due loans" be as far as possible aligned with the AIRB Approaches' "defaulted exposure" definition. The unsecured portion of such defaulted exposures would be risk-weighted 150% and the secured portion would be risk-weighted in accordance with the Credit Risk Mitigation framework ("*CRM*").
- ***Specialized Lending:*** For specialized lending exposures to corporates, the Basel Committee proposes to use issue-specific external ratings for project finance, object finance and commodities finance, where permitted, or, where external ratings are not allowed for regulatory purposes, a flat risk weight of 120% for object and commodity finance exposures, and flat risk weights for project finance of 150% (pre-operational phase) and 100% (operational phase).
- ***Subordinated Debt and Other Capital Instruments:*** Under Basel II, the standard risk weight assigned to all investments in equity or regulatory capital instruments issued by banks or securities firms is 100% unless the investment is deducted from the banking organization's capital base. The Basel Committee proposes to apply flat risk weights, subject to further analysis in the next QIS, of 250% for equity holdings that are not deducted from capital, and 150% for subordinated debt and capital instruments other than equity below the threshold deductions. Risk weights for these exposures currently range from 100% to 600% under the U.S. Standardized Approach, depending on a variety of factors.[12]
- ***Retail Exposures:*** The Basel Committee intends to maintain the previously proposed flat 75% risk weight for retail exposures, with which commenters generally agreed. The Federal banking agencies have not adopted a separate risk weight category for retail exposures as part of the U.S. Standardized Approach.

PROPOSED REVISIONS TO CREDIT RISK MITIGATION FRAMEWORK

The First Consultation proposed substantial modifications to the credit risk mitigation framework for exposures risk-weighted under the Standardized Approach, including: (1) excluding all valuation approaches that rely on internal estimates or models to set capital charges thereby requiring banking organizations to use standard collateral haircuts; and (2) modifying the universe of "eligible financial collateral."

The Second Consultative Document retains certain of the proposed revisions, including the elimination of internal models and estimates for the estimation of collateral haircuts, but modifies the proposed framework to address the concerns raised by commenters.

1. Valuation Approaches

The current Standardized Approach permits banking organizations to recognize the value of credit risk mitigation techniques, including the backing of "eligible financial collateral," in their calculation of risk-weighted assets, and provides organizations with two approaches, the simple and comprehensive approaches. Under the simple approach, a banking organization is permitted to substitute the risk weight of a counterparty for the risk weight of the collateral for the portion of the exposure that is backed by "eligible financial collateral" (subject to a 20% risk-weight floor). Other than changes to the universe of "eligible financial collateral," described below, neither the First Consultation nor the Second Consultative Document would affect the simple approach.

Under the comprehensive approach, banking organizations are permitted to offset the risk-weighted exposure using a more precise measurement of the value of the eligible financial collateral, using either (i) standard supervisory haircuts, (ii) a banking organization's own estimates of haircuts, (ii) value-at-risk ("*VaR*") models for certain securities financing transaction, and (iii) internal models for securities financing transaction or over-the-counter ("*OTC*") derivative transactions. Similar to the First Consultation, the Second Consultative Document removes the option for banking organizations to use its own estimates of haircuts and VaR or internal models and instead requires banking organizations using the comprehensive approach to use standard supervisory haircuts for securities financing transactions. Likewise, for OTC, exchange-traded, and long settlement transactions, under the Second Consultative Document, banking organizations would be required to use the Basel Committee's recently adopted standardized approach for counterparty credit risk or SA-CCR.[13] However, in response to commenters concerns that the current supervisory haircuts under the comprehensive approach are not sufficiently risk-sensitive for repo-style transactions and do not take into account portfolio diversification benefits, the Basel Committee has proposed revising its formula under the comprehensive approach to net exposures (by netting long and short exposures) to reflect diversification benefits.[14]

2. Eligible Financial Collateral

Under the current Standardized Approach, each of the current simple and comprehensive approaches for credit risk mitigation would only recognize instruments meeting the framework's criteria for "eligible financial collateral" as credit risk mitigants. The First Consultation proposed modifying the universe of eligible financial collateral to eliminate recognition of corporate (non-financial) guarantees of securitizations, in order to limit capital arbitrage possibilities, and to no longer recognize credit derivatives that do not specify restructuring as a credit event. In addition, in the First Consultation, the Basel Committee sought comment on whether it should eliminate the reliance on external credit ratings for purposes of the supervisory haircuts under the simple and comprehensive approaches.

In view of comments received, the Basel Committee has retained external credit ratings for purposes of the supervisory haircuts, but has provided an alternative approach that relies on an "investment grade" determination that is used for corporate exposures as described above. Likewise, for these jurisdictions, the Second Consultative Document would require that any financial collateral of a corporate entity be from a company that has outstanding securities listed on a recognized exchange and has creditworthiness that is "not positively correlated with the credit risk of the exposures for which they provided guarantees." In addition, in contrast to the First Consultation, the Second Consultative Document permits the usage of corporate (non-financial) guarantees as financial collateral for securitizations.

With respect to the First Consultation's proposed non-recognition of credit derivatives that do not have restructuring clauses, the Second Consultative Document seeks comment on "the conditions under which restructuring may not be a necessary event for full recognition." The Basel Committee noted the concerns expressed by U.S. commenters who argued that unique aspects of the U.S. market for credit derivatives (mandatory lender/holder unanimity to restructure most debt and the absence of debt restructurings outside of bankruptcy proceedings) resulted in almost no restructuring clauses in U.S. credit derivatives.[15]

Finally, the Basel Committee has sought comment on whether the implementation of special resolution regimes in certain jurisdictions can affect the eligibility of credit risk mitigation of bilateral netting agreements covering repo-style transactions.

3. Core Market Participant Exemption

Similar to the First Consultation, the Second Consultative Document invites comment on the current exemption for "core market participants"—a provision that permits banking organization to provide each other short-term wholesale funding without any capital requirements—from the Standardized Approach's 20% risk-weight floor after applying the credit risk mitigation framework. The Second Consultative Document notes that the Basel Committee views the exemption as "inconsistent with other treatments for short-term wholesale funding set out in the liquidity standards” and is continuing to review its continued relevance.[16]

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ENDNOTES

1 Basel Committee, *Revisions to the Standardised Approach for Credit Risk—Second Consultative Document* (Second Consultative Document) (Dec. 10, 2016), *available at*: http://www.bis.org/bcbs/publ/d347.pdf.

2 Basel Committee, *Comments Received on the "Revisions to the Standardised Approach for Credit Risk—Consultative Paper*, *available at*: http://www.bis.org/bcbs/publ/comments/d307/overview.htm.

3 Federal Reserve, OCC, FDIC, *Banking Agencies' Statement Regarding the Basel Committee's Second Consultative Paper, "Revisions to the Standardized Approach for Credit Risk"* (Dec. 10, 2015), *available at*: http://www.federalreserve.gov/newsevents/press/bcreg/20151210b.htm.

4 Federal Reserve, OCC, FDIC, 78 Fed. Reg. 62018, *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule* (Oct. 11, 2013). When the U.S. Federal banking agencies considered Basel II and in 2007 adopted portions of Basel II for U.S. banks, they adopted only the AIRB Approach to credit risk and the advanced approach for operational risks, applied them only to the advanced approaches banks and did not adopt the Basel II standardized approach. In 2008, the agencies proposed, as an option but not a requirement for U.S. banks that are not advanced approaches banks, an approach based upon the Basel II standardized approach. *See* Sullivan & Cromwell LLP's memorandum to clients on the proposed and final rules implementing the U.S. Standardized Approach, available at https://sullcrom.com/siteFiles/Publications/SC_Publication_Bank_Capital_Rule_6-8-12.pdf and https://sullcrom.com/siteFiles/Publications/SC_Publication_Bank_Capital%20_Rules_Basel_III_7_3_13.pdf, respectively.

5 Speech by Stefan Ingves, Chairman of the Basel Committee and Governor of Sveriges Riksbank, 2015 Annual Convention of the Asociación de Mercados Financieros (Nov. 2, 2015) (the "Ingves Speech"), *available at*: http://www.bis.org/speeches/sp151102.htm; *see also Basel Committee Outlines Updated Policy Agenda, Including Plans to Finalize Outstanding Revisions to Its Regulatory Reform Framework by the End of 2016* (November 20, 2015), *available at*: https://www.sullcrom.com/siteFiles/Publications/SC_Publication_Basel_Capital_Framework_11_20_15.pdf.

6 In the U.S., the AIRB Approach is applicable only to "advanced approaches banking organizations"—those with $250 billion or more in total consolidated assets or $10 billion or more in foreign exposures. In addition, the U.S. did not originally adopt the current version of the standardized operational risk capital requirements and only implemented a models-based operational risk charge for advanced approaches banking organizations. It remains to be seen whether the U.S. banking agencies will seek to implement the Basel Committee's revised standardized approach to operational risk to a wider set of U.S. banking organizations. *See* Basel Committee, *Consultative Document: Operational Risk—Revisions to the simpler approaches* (Oct. 6, 2014), *available at* http://www.bis.org/publ/bcbs291.pdf.

7 *See* Basel Committee, *Consultative document: Capital floors—The design of a framework based on standardised approaches* (Dec. 2014), *available at* www.bis.org/bcbs/publ/d307.pdf. The Basel Committee indicated its intention to consider the calibration of the floor alongside its work on finalizing the revised standardized approaches to credit risk, market risk and operational risk, and its ongoing review of the capital framework after undertaking a QIS of the proposed floor framework. The floor would be designed to apply either to each major risk category, such as credit risk, market risk and operational risk (setting a minimum average risk weight by risk category that is calibrated to a percentage of the respective standardized approaches), or based on total aggregate risk-weighted assets.

8 Second Consultative Document at p. 2.

ENDNOTES (CONTINUED)

[9] Federal Reserve, OCC, FDIC, *Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements; Proposed Rule*, 77 Fed. Reg. 52888 (Aug. 30, 2012).

[10] *See, e.g.,* 12 C.F.R. § 1.2(d).

[11] Federal Reserve, OCC, FDIC, *Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements; Proposed Rule*, 77 Fed. Reg. 52888 (Aug. 30, 2012).

[12] 12 C.F.R. § 217.52(b)(3)-(b)(7).

[13] Basel Committee, *Standardised Approach for Measuring Counterparty Credit Risk Exposures* (Mar. 31, 2014), *available at*: http://www.bis.org/publ/bcbs279.pdf.

[14] Second Consultative Document at p. 20.

[15] Second Consultative Document at p. 21.

[16] Second Consultative Document at p. 20.

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Annex A

Risk Weights	Current U.S. Standardized Approach	Revised Standardized Approach for Credit Risk – First Consultation	Revised Standardized Approach for Credit Risk – Second Consultation
Bank Exposures	20% to 50% (based on country risk classifications (“CRC”) ratings)	30% to 300% (based on CET1 and NPA ratios)	ECRA: 20% to 150% SCRA: 50% to 150% (based on, *inter alia*, meeting “published and binding” minimum regulatory requirements) 20% for short-term exposures to banks (less than 3 months) under both approaches
Corporate Exposures	100%	60% to 300% (based on revenue and leverage)	Ratings-based: 20% to 150% Non-ratings-based: 75% to 100% (based on internal assessment of creditworthiness, including whether the counterparty has securities outstanding on a recognized securities exchange)
Residential Mortgages	50% or 100%	25% to 100% (based on LTV and DSC ratios)	25% to 85% if repayments not materially from cash flows generated by property 70% to 120% if repayments materially from cash flows generated by property 150% for all exposures which do not satisfy specified underwriting requirements (including with respect to quality of the collateral and other documentation) (when specified underwriting requirements are met, the risk weight to be assigned to the total exposure amount is determined based on the exposure’s LTV ratio)
Commercial Mortgages	100% or 150%	75% to 120% (based on LTV ratios)	60% to 85% if repayments not materially from cash flows generated by property (the higher of 100% or the risk weight of

Risk Weights	Current U.S. Standardized Approach	Revised Standardized Approach for Credit Risk – First Consultation	Revised Standardized Approach for Credit Risk – Second Consultation
			the counterparty for exposures which do not satisfy the specified underwriting requirements) 80% to 130% if repayments materially from cash flows generated by property (150% for exposures which do not satisfy the specified underwriting requirements) (other than for ADC exposures, which are risk-weighed at 150%, the risk weight to be assigned to the total exposure amount is determined based on the exposure's LTV ratio, with the most preferential risk weight applicable where the loan amount does not exceed 60% of the value of the property pledged as collateral)
Subordinated Debt, Equity and Other Capital Instruments	100% to 600%	300% for Public Equity 400% for Private Equity 250% for Subordinated Debt	250% for all equity exposures 150% for subordinated debt exposures
Credit Conversion Factors for Unfunded Commitments	0% for Unconditionally cancellable 20% for Maturities of less than 1 year 50% for Maturities of greater than 1 year	10% for Unconditionally cancellable 75% for Maturities of less than 1 year 75% for Maturities of greater than 1 year	10-20% for Unconditionally cancellable (scope narrowed to retail only) 50-75% for Maturities of less than 1 year 75% for Maturities of greater than 1 year
Credit Risk Mitigation: Collateral Haircut Approach	No collateral haircuts based on credit ratings; based only on issuer and maturity	Includes more granular collateral haircut table with additional maturity buckets and more conservative haircuts (particularly for equity collateral and non-financial collateral)	Improved to reflect netting of long and short securities, diversification effects for SFTs and margin loans Higher-equity haircuts retained Reduced granularity of corporate issuer haircuts Ongoing review of core market participant exemption

Risk Weights	Current U.S. Standardized Approach	Revised Standardized Approach for Credit Risk – First Consultation	Revised Standardized Approach for Credit Risk – Second Consultation
Credit Risk Mitigation: CDS Hedges	Credit derivatives need not include restructuring as a credit event to be recognized as credit risk mitigants	Credit derivatives that omit restructuring as a credit event no longer recognized as credit risk mitigants	Reviewing the requirement to include restructuring as an event of default in order for credit derivatives to be recognized as a credit risk mitigant