



To: Representatives of the Financial Services Roundtable, GAC, Public Affairs Council, Research Council, All Staff

### **Fast Facts: INTERNATIONAL CAPITAL REQUIREMENTS**

**FACT:** Under Basel III, banks may be required to hold up to [9.5%](#) of Tier 1 common equity. This is *more than double* previous capital levels. The core features of Basel III include:

- An increased minimum Tier 1 common equity requirement for banks from 2% to 4.5%.
- A “conservation buffer” of 2.5% to withstand future periods of stress, and
- A possible “counter-cyclical buffer” of 2.5% on top of that.<sup>a</sup>

**FACT:** The largest banks will be subject to additional capital requirements (a “SIFI surcharge”) that could [bring required common equity for some of these institutions up to 12%](#).

- The additional capital requirement will range from 1% to 2.5%.
- If the biggest banks continue to get bigger, there is the possibility of additional 1% surcharge on top of that.

**FACT:** So, how much capital is this in context?

- The <Basel III> capital level is “a level very few large U.S. banks were able to achieve at the height of their record level of profits in 2006,” according to the [Congressional Research Service](#).

**FACT:** In addition to increased capital ratios, Basel III is much stricter on the calculation of these ratios. In other words, even if the required ratios stayed the same as today, achieving those ratios would be far more difficult.

**FACT:** What is the impact of these additional capital requirements?

- Banks pass a rise in bank funding costs, due to higher capital requirements, to their customers, according to the [OECD](#).
- For each percentage point increase in the target capital ratio implemented over a four-year horizon, the level of GDP relative to the baseline path declines by 0.19, according to the [Macroeconomic Assessment Group](#).
- Increasing capital levels by the amounts required under Basel III might affect long-term profitability, loan growth and economic growth, according to Bloomberg Government.

If you have questions or comments, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at [Abby@fsround.org](mailto:Abby@fsround.org), or Scott Talbott, Senior Vice President of Government Affairs, at [Scott@fsround.org](mailto:Scott@fsround.org).

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<sup>a</sup> There has been talk about the U.S. not adopting this additional countercyclical buffer, although that has not yet been determined.