

2026 Proposed Capital Rules

Review of Impact for BOLI Investments

March 2026

High Level Comparison of Proposed Rule to Current Rules

Overview of Proposed Rule

Banking Regulators Release Proposed Updates to Basel III Capital Rules

- On March 19, 2026, the banking regulators released [proposed rules](#) to modify the regulatory capital rules
 - Separate proposals were released for advanced approach banks and standardized approach banks
- The proposals do not set forth a specific effective date and implementation timeline; instead, regulators are asking commenters for input on an appropriate amount of time between publication of a final rule and its effective date
- The proposals are open for comments through June 18, 2026

Key Proposed RWA Changes for Advanced Approaches Banks

- Replace the internal-models-based capital requirements for credit and operational risk (the so-called “advanced approaches”) with a new “expanded risk-based approach” (“ERBA”)
 - Allow large banks to only be subject to the ERBA (i.e., no longer required to calculate capital requirements under the Standardized Approach)
- Aside from use of internal credit risk rating systems for “investment grade” status determinations, the ERBA assigns specific risk weights to exposures instead of using institution-specific models and parameters (e.g., as done under the “Wholesale” framework)
- Investment grade corporate exposures will receive a 65% RW
- Equity exposures and investment fund exposures are largely unchanged

RWA Comparison of 2026 Proposals to Existing Frameworks

Proposed Treatment Summarized in Greater Detail

Exposure Type	Current Standardized Approach	2026 Proposed Standardized	Current Advanced Approach	2026 Proposed ERBA
US Treasuries	0% [§.32(a)]	Unchanged	Wholesale exposure [§.131(e)]	0% [§.111(a)(1)]
US Agencies and GSEs	0% if unconditionally guaranteed; or 20% if conditionally guaranteed [§.32(a)]	Unchanged	Wholesale exposure [§.131(e)]	0% if unconditionally guaranteed; or 20% if conditionally guaranteed 150% if subordinated exposure unless to FHLB or Farmer Mac (20% RW) [§.111(a)(1) or [§.111(c)]
US Depository Institutions	20% [§.32(d)]	Unchanged	Wholesale exposure [§.131(e)]	Grade A: 30%-40% Grade B: 75% Grade C: 150% [§.111(d)]
Municipal Bonds	20% for General Obligations and 50% for Revenue Obligations [§.32(e)]	Unchanged	Wholesale exposure [§.131(e)]	20% for General Obligations and 50% for Revenue Obligations [§.111(e)]

RWA Comparison of 2026 Proposals to Existing Frameworks

Proposed Treatment Summarized in Greater Detail

Exposure Type	Current Standardized Approach	2026 Proposed Standardized	Current Advanced Approach	2026 Proposed ERBA
Corporate Exposures	100% [§.32(f)]	95% [§.32(f)]	Wholesale exposure [§.131(e)]	65% for Investment Grade (requirements apply) 100% for other 150% for subordinated or past due exposures [§.111(h)]
Repo Transactions	Subject to counterparty RW depending on collateralized transactions treatment [§.37]	Similar approach as current; New proposal reduces exposure amount for diversification of collateral [§.37]	Subject to counterparty RW as Wholesale exposure depending on repo-style transactions treatment [§.132]	Similar approach as current; New proposal reduces exposure amount for diversification of collateral [§.115]
Securitizations	Primarily subject to SSFA [§.42]	Subject to SEC-SA [§.44]	Primarily subject to SSFA [§.141]	Subject to SEC-SA [§.133]

RWA Comparison of 2026 Proposals to Existing Frameworks

Proposed Treatment Summarized in Greater Detail

Exposure Type	Current Standardized Approach	2026 Proposed Standardized	Current Advanced Approach	2026 Proposed ERBA
OTC Derivatives	Subject to OTC derivative contract treatment which used the CEM approach [§.34]	Option to elect to use SA-CCR; CEM remains unchanged [§.34]	Subject to SA-CCR [§.132]	Subject to SA-CCR [§.114]
Cleared Transactions (e.g., Interest Rate Futures)	Subject to cleared transaction treatment [§.35]	Option to elect to use SA-CCR; CEM remains unchanged [§.34]	Subject to cleared transaction treatment [§.133]	Subject to SA-CCR [§.116]
Unsettled Transactions (including TBAs)	Subject to unsettled transactions treatment [§.38] Note: Unsettled Transactions with longer than normal settlement period revert to OTC derivative framework	Unchanged; note that Unsettled Transactions with longer than normal settlement period revert to OTC derivative framework, which could change methodology if SA-CCR is adopted	Subject to unsettled transactions treatment [§.136]	Unchanged [§.117]

RWA Comparison of 2026 Proposals to Existing Frameworks

Proposed Treatment Summarized in Greater Detail				
Exposure Type	Current Standardized Approach	2026 Proposed Standardized	Current Advanced Approach	2026 Proposed ERBA
Investment Fund Exposures	Subject to applicable Look-Through [§.53(a)]	Unchanged	Subject to applicable Look-Through [§.154]	Subject to applicable Look-Through Minimum 20% RW under all look-throughs [§.142]
SVP	Exposure to counterparty (20% if bank, 100% otherwise)	Unchanged	Wholesale exposure [§.131(e)]	Exposure to counterparty [§.140(a)(3)]
Equity Exposures	100% (effective portion of hedge pairs and non-significant equity exposures); 300% (publicly traded); 400% (not publicly traded) [§.52]	Unchanged	100% (effective portion of hedge pairs and non-significant equity exposures); 300% (publicly traded); 400% (not publicly traded) [§.152]	100% (effective portion of hedge pairs and non-significant equity exposures); 300% (publicly traded); 400% (not publicly traded) [§.141]

In Depth Review of Proposal for Certain Exposure Types

- The proposed ERBA rule establishes three categories for bank exposures (Grade A, Grade B and Grade C)
 - Grade A: a bank exposure for which the obligor depository institution (1) is **investment grade**, and (2) whose capital ratios meet the higher of: (a) the requirements to not be subject to limitations on distributions and discretionary bonus payments, and (b) the capital ratio requirements for the **well-capitalized** category under the prompt corrective action framework
 - Grade B: a bank exposure for which the obligor depository institution (1) is **speculative grade or investment grade**, and (2) capital ratios meet the higher of: (a) the applicable minimum capital requirements under capital rules established by the prudential supervisor, and (b) the capital ratio requirements for the **adequately-capitalized** category
 - Grade C: a bank exposure that does not qualify as Grade A or Grade B
- Additionally, a preferential risk-weight is available for Grade A banks that meet additional requirements:
 - Category I, II, or III banks with a CET1 Ratio of at least 14% and an SLR of at least 5% [or leverage ratio > 5% if not subject to SLR]
 - Community banks that satisfy the Community Bank Leverage Ratio requirement of 9%
 - According to the preamble of the proposal, **68% of US depository institutions met the criteria** to be assigned a 30% RW as of June 30, 2025
- Subordinated debt instruments of a bank are subject to a 150% RW under the proposal

Proposed Risk Weights for Bank Exposures Under ERBA

	Grade A (Meeting Additional Requirements)	Grade A	Grade B	Grade C
Risk Weight	30%	40%	75%	150%

Corporate Exposures

- Under the Standardized Proposal, corporate exposures are changed from 100% to 95%
- Under the ERBA, in general, an investment grade corporate exposure that is not subordinated qualifies for a 65% RW
 - Investment Grade determination must be made by relying on one or more internal credit risk rating systems (“ICRRS”) that meet the following requirements:
 - Must be used to inform material business and risk management decisions
 - Must define which obligor rating grades from the system are considered “investment grade”
 - Must assign accurate and timely obligor rating grades based on clearly defined criteria
 - Must assign a rating grade for each obligor at least annually and whenever new material information is received
 - Cannot rely solely on third-party assessments
 - Must incorporate quantitative and qualitative factors relating to the historical and projected patterns of payment behaviors of similar obligors and products, etc.
 - The ICRRS must also be validated at least annually
- If the above requirements are not satisfied, the RW is 100% unless the exposure is subordinated or past due
- Subordinated and/or past due exposures receive a 150% RW (provided that any guaranteed portions can be considered)

Operational Requirements

- ERBA section 130(c) maintains the “due diligence requirements for securitization exposures” that apply under current regulatory capital rules
 - Must conduct an analysis prior to acquiring the exposure
 - Must document the analysis within 3 business days of acquiring the exposure
 - Must consider structural features, performance of underlying exposures, and relevant market data
 - Analysis must be updated no less frequently than quarterly
- Failure to comply results in a **1250% RW** for any applicable securitization exposures

Exposure Amount

- In general, the exposure amount of a securitization exposure is its carrying value

SEC-SA

- To apply the SEC-SA, a bank must:
 - Have accurate information on A, D, W, and Kg
 - Values must be most currently available data
 - In general, the data must be no more than 91 days old
 - Be able to assess whether the exposure is a resecuritization

SEC-SA (Cont.)

- In general, the proposed rule's SEC-SA computation uses the same formula as the SSFA under Basel III Standardized
 - The RW Floor is reduced from 20% to 15%
 - The Kg parameter will be impacted by changes to the computations of risk-weights for the underlying exposures (e.g., real estate exposures, retail exposures, and corporate exposures)
 - **Note: Unlike the 2023 Basel III Endgame proposal, the parameter p is unchanged under this proposal (remains 0.5 for securitizations and 1.5 for resecuritization exposures). This parameter was a key source of potentially higher RWA under the 2023 proposal.**

Full Look-Through Approach for Senior Tranches

- Sections 42(k) [Standardized] and 132(k) [ERBA] propose a *Look-through approach* that would allow a bank to risk weight a senior securitization exposure based on the weighted-average risk-weight of all the underlying exposures where the weight for each exposure is determined by the unpaid principal amount of the exposure (subject to a 15% floor)
 - This provision could be useful for BOLI investments that occasionally revert to 1250% due to an underlying parameter for the SSFA being unavailable or more than 90 days old

Securitizations – Kg of Underlying Exposures

Regulatory Residential Real Estate [§.111(f)(5) and §.32(g)]

- RW based on LTVs and whether or not the exposure is dependent on cash flows from the real estate
 - Regulatory Residential Real Estate Exposure means a real estate exposure that is a first-lien residential mortgage exposure (excludes ADC, pre-sold construction loans, statutory multifamily and HVCRE) that meets the following criteria:
 - Secured by owner-occupied or rented property;
 - Was made in accordance with prudent underwriting standards;
 - The property must be valued in accordance with §.5; and
 - Involves a loan that has not been restructured or modified (other than by the Home Affordable Mortgage Program)

	Risk Weights for Residential Real Estate Exposures	LTV ratio ≤ 50%	50% < LTV ratio ≤ 60%	60% < LTV ratio ≤ 80%	80% < LTV ratio ≤ 90%	90% < LTV ratio ≤ 100%	LTV ratio > 100%	Past Due
ERBA	Exposure Not Dependent on Cash Flows	20%	25%	30%	40%	50%	70%	100%
ERBA	Exposure Dependent on Cash Flows	30%	35%	45%	60%	75%	105%	150%
SA	Exposure Not Dependent on Cash Flows	25%	30%	35%	45%	55%	75%	
SA	Exposure Dependent on Cash Flows	35%	40%	50%	65%	80%	110%	

Securitizations – Kg of Underlying Exposures

Standardized Approach Proposal Unchanged

Regulatory Commercial Real Estate [§.111(f)(6)]

- RW based on LTVs and the borrower; if the borrower is not determinable, then 100% RW is assumed
 - Regulatory Commercial Real Estate Exposure means a real estate exposure (excluding regulatory residential, ADC, pre-sold construction loans, statutory multifamily mortgages, or HVCRE exposures) that meets the following criteria:
 - Must be primarily secured by fully completed real estate;
 - The bank holds a first priority security interest in the property;
 - The exposure was made in accordance with prudent underwriting standards relating to loan amount and value of the property;
 - The property must be valued in accordance with §.5; and
 - The loan must not have been restructured or modified

Risk Weights for Commercial Real Estate Exposures	LTV ratio ≤ 60%	60% < LTV ratio ≤ 80%	LTV ratio > 80%	Past Due Exposures
Exposure Not Dependent on Cash Flows	Lesser of 60% or RW of Borrower	RW of Borrower	RW of Borrower	150%
Exposure Dependent on Cash Flows	70%	90%	110%	150%

Retail Exposures [§.111(g)]

- Retail exposures generally mean exposures to natural persons or small/medium sized businesses
- RW based on type of retail exposure
 - Transactor: means a regulatory retail exposure that is a credit facility where the balance has been repaid in full at each scheduled repayment date or an overdraft facility that has not been drawn upon during the previous 12 months
 - Regulatory retail exposure: Means a retail exposure that meets the following criteria:
 - Exposure is a revolving credit or line of credit or a term loan or lease; and the sum of all retail exposures to the same obligor is less than \$1 million
 - Other retail exposures: Means a retail exposure that doesn't qualify in the other two categories

Risk Weights for Retail Exposures	RW
Transactor exposures	45%
Regulatory retail exposures	75%
Other retail exposures	100%

- In general, the approach to risk-weighting investment fund exposures under the proposed ERBA is the same as current regulatory capital rules. An institution can apply any of the following look-through approaches:
 - Full Look-Through: Risk weight all exposures held by the fund as if held directly by the bank (proportionate to overall ownership share)
 - Alternative Modified Look-Through: Risk weight based on the investment limits of the fund
 - Simple Look-Through: Risk weight based on highest permissible RW the fund can hold
 - **NOTE: Unlike the 2023 Basel III Endgame proposal, this proposed rule does not look to require application of the Full Look-Through Approach.**
- The proposal requires banks to treat an “investment in a separate account (as defined in § __.2) as if it were an equity exposure...” subject to the investment fund RWA approaches
 - **NOTE: “Separate Account” is not defined in this proposed rule; however, definitions in this proposed rule are set forth in sections 101 and 202.** The reference to § 2 (Definitions) likely implies that the term’s definition under the current regulatory capital rules will continue to apply. The current definition is clear in its applicability to Separate Account BOLI. It is not clear as to whether the definition is satisfied under hybrid BOLI.

BOLI Expressly Exempt from Market Risk Rules

Applicability of the Market Risk Capital Rules

- Under the 2023 Basel III Endgame proposal, it was unclear whether Separate Account BOLI exposures would be subject to the Market Risk Capital Rules
- This rule proposal expressly states that Separate Account BOLI **is not subject to Market Risk capital**
 - ... Section (202) [Definitions] ... “a market risk covered position does not include:... (x) An equity position arising from a deferred compensation plan, or **bank owned life insurance or corporate owned life insurance owned by an affiliate of [BANKING ORGANIZATION]** that is consistent with the requirements of [Volcker Rule § __.10(c)(7)];”

Equity Exposures (Simple Approach)

Standardized Approach Proposal Unchanged

Risk Weight	Equity Exposure
0%	An equity exposure to a sovereign, specified supranational entity, an MDB, and any other entity whose credit exposures receive a zero percent risk weight under §__. 111 of the proposal.
20%	An equity exposure to a PSE, FHLB, or Farmer Mac
100%	An equity exposure that qualifies as a community development investment under section 24 (Eleventh) of the National Bank Act; or The effective portion of a hedge pair; or Equity exposures (subject to certain limitations) to the extent that the aggregate adjusted carrying value of the exposures does not exceed 10% of the institution's total capital
250%	Significant investments in the capital of unconsolidated financial institutions in the form of common stock that are not deducted from capital pursuant to §_.22(d)(2)
300%	<u>A publicly traded equity exposure</u>
400%	<u>An equity exposure that is not publicly traded</u>
600%	An equity exposure to an investment firm that: <ul style="list-style-type: none"> • Would meet the definition of a traditional securitization were it not for the application of paragraph (8) of that definition; and • Has greater than immaterial leverage

Noteworthy Updates

- Proposed equity risk-weights are largely consistent with current regulatory capital rules
- Unlike the 2023 proposal, this proposal retains the 100% risk weight threshold categories for “non-significant equity exposures” and effective hedge pairs
- In 2023, certain commenters suggested a lower RW (than 100%) for effective hedge pairs. This is not reflected in the new proposal.

Overall Discussion Topics for BOLI Under Proposed Rules

Possible Focal Points for Comments

Exception for BOLI from Market Risk Rules

- As noted previously, the proposal expressly exempts BOLI/COLI from the market risk capital rules
- In Question 104, the regulators ask, “what are the advantages and disadvantages of excluding equity positions in investment funds arising from bank-owned life insurance or corporate-owned life insurance from the definition of market risk covered positions?”
- We should consider submitting a comment in support of the exclusion for BOLI/COLI

Investment Fund Exposure Floor

- Under the ERBA, investment fund exposures would be subject to a floor RW of 20%
 - This is consistent with the floor under the current Standardized Approach (which is not proposed to be changed)
- If an investment fund is subject to a look through treatment (particularly the full look-through), then what is the purpose of the floor? What if an investment fund was Treasury-only? What if a fund is comprised solely of securitizations that qualify for 15% risk weight under the proposal?
- We recommend either eliminating the floor or reducing it to 15%
- For BOLI/COLI exposures, we recommend having the floor applied at the BOLI contract level – not on a fund-by-fund level

Possible Focal Points for Comments (Cont.)

Securitizations

- While not uniquely applicable to BOLI, the proposal may increase the complexity of calculating the Kg parameter (especially for real estate and retail ABS)
 - Should practical expedients be suggested (e.g., allowing a bank to continue assigning Kg based on 100% RW [adjusted for delinquencies] in lieu of needing to process more granular information on the underlying exposures)?

Corporate Exposures (including General Account BOLI)

- Can the defined requirements to qualify for 65% RW be achieved for BOLI exposures?
 - Presumably, banks already have credit obligor ratings for their BOLI insurers, so the exposures should qualify
 - Are there any concerns for Separate Account allocations that permit corporate exposures? Seemingly, if such exposures have investment grade obligors within a bank's internal systems, they will qualify for 65% RW; otherwise, they will receive 100% RW.

Depository Institutions

- Is the proposed increase in RWA (from 20% to 30%-75%) for depository institutions justified?
- All exposures require processing of counterparty capitalization status ("well-capitalized" for Grade A; "adequately capitalized" for Grade B; and all others in Grade C). It is our understanding that these thresholds have multiple components that would need to be tracked. Additionally, the preamble states that the capital ratios used must be the "most recent" released.
- Is the complexity of evaluating CET1, SLR and other data to qualify for a 10% RW reduction (i.e., 30% vs 40%) under the proposal worth the resources required?

Equity Risk Weights

- Banks may question the appropriateness of 100% RW for hedging allocations (assuming the hedge effectiveness is high)

Possible Focal Points for Comments (Cont.)

Collateral and Netting for Investment Fund Exposures

- ***Collateral***: Oftentimes, BOLI portfolio investment guidelines require repurchase transactions to be overcollateralized (minimum 102%) with Treasuries/agencies. Given this is an investment stipulation and there is a monitoring/certification process regarding the manager's compliance with the investment guidelines, it would be helpful if banks could rely on the 102% minimum collateral in computing Full Look-Through RWs for these exposures (instead of obtaining and processing data on the underlying collateral positions).
- ***Netting***: BOLI portfolio managers (particularly those that are active in the mortgage TBA market) express that they trade positions under qualified master netting agreements. However, due to operational and confidentiality restrictions, it has been questionable whether BOLI owners can satisfy the documentation requirements necessary to apply netting in calculating RWA. Depending on specifics of the approach, this can cause a material overstatement in RWA if a bank computes RW for a number of exposures individually when they are actually subject to a netting agreement.

Hybrid BOLI RWA

- The proposal does not specifically define “separate account” and the current definition of the term creates ambiguity for Hybrid BOLI
- It may be worthwhile to submit a comment seeking clarification of the intended RWA treatment for hybrid BOLI, or suggesting a preferred treatment for regulators to affirm

“Insurance Assets” under Section 111(k)

- The proposal includes the concepts of guaranteed and non-guaranteed separate accounts in the rule; however, the terms are not defined in this proposal
- We believe they are geared toward an insurance entity as issuer, not a bank as policyowner
- It is not clear that there would be much value to requesting clarification on this point

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