Policy Spotlight

BlackRock's Take on the Re-Proposed Basel III Endgame and G-SIB Surcharge Rules

June 2026 | Government Affairs & Public Policy

Introduction

In March 2026, the Board of Governors of the Federal Reserve (the Board), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) jointly proposed substantial changes to the U.S. bank capital framework.

These changes include an expanded risk-based approach (ERBA) for the largest banks and banks with significant trading activity, revisions to the U.S. standardized approach for other banks, and amendments to the surcharge framework for global systemically important banks (GSIBs). With these changes, the agencies aim to enhance the ability of U.S. banks to support the U.S. economy while ensuring that they continue to operate in a safe manner.

BlackRock supports efforts to strengthen the safety and soundness of the banking system while preserving banks' capacity to support capital formation. Key to these efforts are capital rules that closely reflect the actual risk of an activity or exposure.

Capital requirements that are set too high relative to risk can constrain the ability and willingness of banks to participate in lending, financing, custody, clearing, and other client-facing services. This can reduce market liquidity and increase costs, with the burden ultimately falling on investors by limiting their access to the products and markets needed to meet their investment goals.

We submitted a comment letter offering targeted recommendations to help the agencies achieve their objectives and avoid imposing unnecessary constraints. A summary of our views follows.

Authors

Benjamin Tecmire
Managing Director,
Head of Regulatory Affairs

Matt Thomas
Managing Director,
Global Head of Securities Lending & Financing

Nhan Nguyen
Director,
Government Affairs & Public Affairs

Jeff Gudiel
Associate,
Government Affairs & Public Affairs

Summary of BlackRock's Views

1	The Agencies should better calibrate the capital treatment of closed-end fund preferred shares to reflect their risk profile.
2	Business development companies should be treated similarly to other regulated funds under capital deduction requirements.
3	The capital framework should ensure consistent treatment of investment-grade corporate exposures.
4	The capital framework should include the Basel standard's 80% risk weight for "high-quality" project finance exposures.
5	The credit valuation adjustment framework should recognize the regulatory safeguards that apply to regulated funds.
6	ETFs should be treated under the GSIB surcharge framework based on the credit quality of their underlying assets.

1. The Agencies should better calibrate the capital treatment of closed-end fund preferred shares to reflect their risk profile.

The proposals would significantly increase the credit risk weighting of preferred shares issued by closed-end funds (CEFs) by classifying them as "subordinated exposures." This treatment would not appropriately reflect the structure of these shares, which often function as senior securities and are issued within a comprehensive regulatory framework. Municipal bond CEFs, among the largest segment of the market, frequently use these shares to enhance investor returns on higher-yield bond exposures; applying punitive capital treatment could increase costs for investors, including the municipalities that rely on these structures for capital, without reflecting the actual risk of the exposure. BlackRock recommends excluding these shares from such classification or otherwise excluding shares that are not subordinated to any other material liabilities of the issuer. These shares should also be assigned a risk weight that is more consistent with senior corporate exposures, given that they may bear similar credit risk profiles.

2. Business development companies should be treated similarly to other regulated funds under capital deduction requirements.

Business development companies (BDCs) could be captured as unconsolidated "financial institutions" for purposes of capital deduction requirements, which would lead to more punitive capital treatment than that of registered investment companies, even though both receive similar regulatory treatment. BlackRock recommends that BDCs electing to be regulated under the Investment Company Act of 1940 ("1940 Act") be excluded from this definition. Alternatively, investments in BDCs should be treated under the applicable equity or investment fund framework for capital requirements, rather than as investments in the capital of an unconsolidated financial institution.

3. The capital framework should ensure consistent treatment of investment-grade corporate exposures.

The proposals would permit banks that are subject to the ERBA to apply a favorable 65% risk weight to qualifying investment-grade corporate exposures. Other banks that follow the standardized approach, however, would be required to apply a higher 95% corporate risk weight to similar exposures. This could make the latter approach less risk-sensitive and could increase the cost of bank financing for high-quality corporate borrowers. BlackRock recommends establishing a lower risk weight that is calibrated more closely to the ERBA's proposed risk weight, subject to appropriate internal credit reviews, oversight, and validation of the investment-grade designation.

4. The capital framework should include the Basel standard's 80% risk weight for "high-quality" project finance exposures.

The proposals establish a risk weight for operational project finance exposures but do not provide more favorable treatment for projects that are considered high-quality. Omitting a lower risk weight may increase borrowing costs for infrastructure financing and create divergence from jurisdictions that have adopted the Basel standard. BlackRock recommends that the Agencies adopt an 80% risk weight for high-quality operational project finance exposures. Doing so would support prudent bank participation in financing critical U.S. infrastructure at a time of significant long-term investment needs.

5. The credit valuation adjustment framework should recognize the regulatory safeguards that apply to regulated funds.

The proposals include a credit valuation adjustment (CVA) framework that captures the risks associated with OTC derivative exposures based on counterparty type and credit quality. The same risk weights would apply broadly to different types of financial entities, including those entities whose use of derivatives are well-regulated. BlackRock recommends adopting a separate risk weight category and lower risk weight for regulated fund counterparties that are subject to SEC Rule 18f-4, which governs funds' use of derivatives. This approach would appropriately reflect the comprehensive regulatory framework that applies to these funds relative to other financial sector counterparties.

6. ETFs should be treated under the GSIB surcharge framework based on the credit quality of their underlying assets.

Proposed changes to the GSIB surcharge framework would designate ETFs as a source of financial system interconnectedness for GSIBs, which could drive higher GSIB scores and lead to higher surcharges. This would effectively treat ETFs similarly to other types of financial entities for systemic risk purposes, despite fundamental differences in how they are structured and regulated. BlackRock recommends excluding ETFs from this type of designation, or at minimum maintaining the exclusion that exists for bond ETFs. ETFs are regulated under the 1940 Act and generally do not engage in credit intermediation, create runnable liabilities, or operate as bank counterparties. Designating ETFs otherwise could overstate systemic risk, discourage authorized participant activity, and impair liquidity and price discovery in ETF and underlying bond markets.