



Trading Book Capital: Capital Conundrum, Navigating Basel III Endgame February 5, 2026

Welcoming Remarks Scott O'Malia, ISDA Chief Executive

Good afternoon, and welcome to ISDA's Trading Book Capital event – it's great to be here in New York. We have a busy agenda ahead of us, focusing on the latest developments in trading book capital. A special thank you to EY for sponsoring the event and for your continued support.

Now, over the past three years, we've dedicated significant attention to what's widely known as the Basel III endgame. It's a catchy label that was first coined in 2023 when US regulators proposed rules to implement the final Basel III capital reforms. As I was preparing for today's event, I did a little digging into the original meaning of the word 'endgame' – and I learnt something new.

The term was first used to refer to the final stage of a game of chess, which takes place when only a few pieces are left on the board. It's often characterized by an intense showdown between the pawns and the king, which may become a more active player at this late stage of the game. As the battle for victory intensifies, the king can be used to attack enemy pawns or defend its own team.

I hesitate to offer this up as a perfect analogy for the Basel III process, but there is a certain parallel. As in a chess game, we have two sets of players on the board – regulators and market participants. They've been engaged in a long and tiring process that has required both stamina and strategic thinking. Both sides have had to carefully scrutinize one another, and it's fair to say some mistakes have been made, with strategic changes enacted on the fly. As in a long game of chess, many spectators called for them to wrap things up long ago. Yet even at this late stage – when the finish line should be so close – it still seems far away.

There is one crucial distinction, of course. While a traditional chess game always ends with victory for one side, the Basel III endgame must end with a shared victory for regulators and market participants. It must result in what we have always advocated for – an appropriate, risk-sensitive capital framework that is as consistent as possible with other jurisdictions.

If we fail to achieve that outcome, the consequences will extend far beyond the negotiating table. Companies and governments that rely on banks for financing would face reduced support, as well as a lack of hedging solutions and increased vulnerability to external shocks. This, in turn, would undermine global economic growth and stability – outcomes we cannot afford to risk.

That's why ISDA has worked tirelessly to advocate for targeted calibration changes to the Basel III endgame proposal, and why we've continued to engage with policymakers as they weighed up industry feedback and redrafted the rules. We're optimistic that the revised

proposal will include substantial improvements and bring us closer to a Basel III framework that balances safety, soundness and market vibrancy.

In the time I have remaining, I'll briefly set out three key areas where we've advocated for adjustments to the original proposal.

The first is internal models. We always knew the revised market risk capital framework would raise the bar for the use of internal models, but the proposed testing process is so complex and operationally challenging that it threatens the future viability of internal models. This isn't just a problem in the US – an ISDA survey of global banks has shown very few plan to use internal models under the Fundamental Review of the Trading Book (FRTB), and for a much-reduced scope of trading desks. That's a major change that we don't think is in line with the Basel Committee's intentions.

We've proposed certain adjustments to the FRTB internal models approach. These include reducing the stringency of the profit-and-loss attribution test so it is used mainly for supervisory monitoring, allowing supervisors to collect information and adjust the test over time. We've also called for greater risk sensitivity in the treatment of non-modellable risk factors, with adjustments to key parameters and a differentiated treatment for risk factors. We believe these changes would ensure the continued viability of internal models under the FRTB and are hopeful they will be incorporated into the revised proposal.

The second area of focus is the impact of the proposed rules on market functioning, including the provision of clearing services. As it stands, the combined effect of the Basel III endgame and the capital surcharge for global systemically important banks (G-SIBs) would increase capital for US G-SIB client clearing businesses by more than 80%. That's completely at odds with the policy objective to promote and incentivize central clearing and would negatively affect market stability. We've set out the changes that need to be made. By excluding the client-facing leg of a cleared derivatives transaction from the Basel III credit valuation adjustment framework and adjusting the G-SIB surcharge, policymakers can reduce this disproportionate capital charge.

We've also highlighted the need for changes to the standardized approach for counterparty credit risk to recognize the risk-reducing benefits of netting across products, including repos and futures. With mandatory clearing of certain cash US Treasury securities set to begin at the end of this year, and repos following in the middle of next year, the lack of recognition of cross-product netting would constrain bank balance sheets and limit their ability to offer client clearing. We've had positive engagement with policymakers on this issue and are hopeful it will be addressed.

The final area I want to touch on is the enhanced supplementary leverage ratio. ISDA had previously highlighted that the supplementary leverage ratio (SLR) acts as a non-risk-sensitive constraint that can impede the ability of banks to act as intermediaries. In the US, the SLR was gold-plated to make it significantly more punitive than in other jurisdictions. We wrote to US prudential regulators in 2024 to propose certain changes to the ratio to avoid negative repercussions for the US Treasury market. Last year, the agencies modified the SLR for US G-SIBs to ensure it primarily serves as a backstop to risk-based capital requirements rather than a binding constraint. We welcome this change and are hopeful it will provide an appropriate safety net without impeding bank participation in key business lines such as client clearing.

I've talked in these remarks about three key areas where we've focused our advocacy and engagement over the past three years. We're encouraged by the positive changes that have been made to the SLR and the constructive dialogue in other areas.

In this marathon game of chess, the publication of the revised Basel III endgame proposal will be a highly significant moment – not just for US market participants but for other jurisdictions where the rules are still to be implemented, including the EU and the UK.

But it won't be the end of the endgame, far from it. As the greatest chess players know all too well, losing concentration can be the worst failing, particularly when the stakes are at their highest.

You can count on ISDA to maintain its laser focus when the revised proposal is published, as we turn our focus to finalization and implementation of the rules. We'll test the revised framework to make sure it delivers the risk sensitivity that is so crucial. We'll then double down on the road to implementation, working with our members to address shared challenges, enabling them to use internal models where appropriate.

Ultimately, we share the same goal as regulators: to deliver a robust, risk-sensitive trading book capital framework that will stand the test of time.

Thank you.