

Criteria | Financial Institutions | Request for Comment:

Request For Comment: Risk-Adjusted Capital Framework Methodology

November 3, 2025

This report does not constitute a rating action.

S&P Global Ratings is requesting comments on proposed revisions to its "[Risk-Adjusted Capital Framework Methodology](#)," April 30, 2024. These revisions would change our treatment of post-tax unrealized gains and losses on available-for-sale (AFS) securities and deferred tax assets (DTAs). Along with this request for comment, we published an FAQ that answers some questions about the proposal (see "[A Closer Look Into The Proposed Changes To Our Risk-Adjusted Capital Framework Methodology](#)"). We also published a set of slides (see "[Further Details On 'Request For Comment: Risk-Adjusted Capital Framework Methodology'](#)", Nov. 3, 2025) that provide more information on the proposal.

The risk-adjusted capital framework (RACF) criteria constitute S&P Global Ratings' global framework for evaluating the capital adequacy of banks and certain nonbank financial institutions and financial services companies (including nonoperating holding companies of such groups). The current criteria remain in effect until we finalize these proposed criteria.

KEY CHANGES

Our overall framework for assessing capital remains the same, but we're proposing the following targeted changes:

Changes related to the treatment of revaluation reserves associated with post-tax unrealized gains/losses on AFS securities

- We no longer remove the impact of revaluation reserves associated with post-tax unrealized gains/losses on AFS securities from reported capital (Paragraph 29).
- We no longer adjust equity holdings by the net unrealized gains or losses on these securities (Paragraph 128; Paragraph 129 will be deleted).
- We incorporate market-value movements on AFS securities in our analysis (Paragraphs 55, 159, 161, and 203).

Analytical Contacts

Matthew B Albrecht, CFA
Englewood
1-303-721-4670
matthew.albrecht
@spglobal.com

Mathieu Plait
Paris
33-14-420-7364
mathieu.plait
@spglobal.com

Chizuru Tateno
Tokyo
81-3-4572-6220
chizuru.tateno
@spglobal.com

Methodology Contacts

Steven Ader
New York
1-212-438-1447
steven.ader
@spglobal.com

See complete contact list at end of article.

Changes related to the treatment of deferred tax assets (DTAs)

- When determining which DTAs can be included in capital, we now include only not-readily-convertible DTAs in the calculation of the 10% threshold of DTAs arising from timing differences (Paragraphs 50 and 51).
- Without changing our definitions, we updated our terminology to refer to DTAs that rely on future profitability and DTAs that arise from timing differences (Paragraphs 49, 50 and 53).

Associated changes to Financial Institutions Rating Methodology

- We added to the non-exhaustive list of examples of situations when we may consider a one-category adjustment up or down to the initial capital and earnings score (Paragraph 106).

IMPACT ON OUTSTANDING RATINGS

S&P Global Ratings applies its RACF methodology to about 1,000 ratings on financial institutions, non-U.S. public-sector funding agencies, and multilateral lending institutions. Preliminary testing indicates that the adoption of the proposed criteria would result in a very limited (fewer than 10) number of rating actions on financial institutions, mostly downgrades and all by just one notch. We do not anticipate any rating actions on any non-U.S. public-sector funding agencies or multilateral lending institutions.

WHEN AND HOW TO SUBMIT COMMENTS

S&P Global Ratings is seeking feedback on the proposed criteria by Dec. 4, 2025. We encourage interested market participants to submit their written comments to <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria>. Comments may also be sent to CriteriaComments@spglobal.com should participants encounter technical difficulties.

PROPOSED METHODOLOGY

The sections below include only the paragraphs where there is a proposed change.

Risk-Adjusted Capital Methodology

29. **Revaluation reserves:** We adjust reported capital to remove the impact of revaluation reserves associated with deferred gains/losses related to cash flow hedges. If the revaluation reserves are positive, we deduct them from reported equity (that is, we exclude them from adjusted common equity [ACE] and total adjusted capital [TAC]). If the revaluation reserves are negative, we add them back to reported equity.

49. **DTAs that rely on future profitability:** To calculate ACE, irrespective of whether the entity operates in jurisdictions where Basel III is implemented, we deduct from reported common equity the net DTAs that rely on future profitability for their recoverability (including tax loss carry-forwards). We deduct net DTAs to reflect the regulatory approach that allows institutions to offset their DTAs against their deferred tax liabilities (DTLs). In these instances, if there is a net DTL, we make neither a deduction nor an addition to calculate ACE. When netting DTAs and DTLs, we exclude DTLs related to goodwill, intangibles, and pensions--if any--because they're already accounted for when adjusting for such items. We deduct the full amount of these DTAs, irrespective of any Basel III transitional arrangements that regulators may apply.

Request For Comment: Risk-Adjusted Capital Framework Methodology

50. **DTAs arising from timing differences:** For all institutions, the treatment of DTAs arising from timing differences (sometimes referred to as temporary) depends on whether they're "readily convertible" or "not readily convertible".

51. If the amount of not-readily-convertible DTAs arising from timing differences exceeds 10% of the intermediate ACE, we deduct from the intermediate ACE the amount of these DTAs in excess of the 10% threshold. The amount of DTAs we consider for this calculation is net of DTLs when the regulator allows such netting. We consider DTAs arising from timing differences as readily convertible if they're convertible into claims against the government to be settled in the form of liquid assets (for example, cash or government bonds) without delay when the institution incurs a loss and we expect the government to be able and willing to deliver the liquid assets. DTAs that can only be netted against other taxes due over time or that are only converted in the event of liquidation are examples of DTAs we don't consider readily convertible.

53. DTAs arising from timing differences that aren't deducted from intermediate ACE to calculate ACE are subject to the following RACF risk weights:

- 375% if we view them as not readily convertible; and
- 250% if we view them as readily convertible.

55. We aim to apply a reasonably consistent definition of ACE and TAC, but specific circumstances or reporting differences may require additional adjustments to reported common shareholders' equity. For example, adjustments may apply when we assess that some transactions artificially inflate reported equity. Examples of such transactions include unseasoned revaluation of an entity's own premises, reciprocal cross holdings, or the issuance of capital instruments that are indirectly funded by the entity through a related party, such as a holding company or sister company. When adjusting for unseasoned property revaluations, the regulatory approach may guide the amount we deduct. Similarly, we could consider deducting more than just the equity investment in unconsolidated minority investments in financial institutions. We could do so if regulatory capital measures deducted other types of exposures to such institutions and we considered it appropriate to reflect the full extent of potential unexpected losses given the nature of the risks involved.

128. The RAC charges apply to the fair value of equity holdings, unless that information isn't available, in which case we would apply risk weights to the carrying value.

159. Our RACF is not intended to capture risks such as:

- Interest rate and currency risk in the banking book, other than the market value of the AFS securities portfolio, which could be affected by these risks;
- Volatility of pension funding;
- Funding risk;
- Reputation risk; and
- Strategic risk.

161. With the exception of the AFS securities portfolio, we've chosen not to incorporate interest rate risk in the RACF because the methodologies of measuring asset-liability management (ALM) risk can differ substantially across banks, depending on each bank's assumptions. Consequently, in the absence of any standard reporting requirement, the ALM risk metrics that banks publish tend to vary.

Request For Comment: Risk-Adjusted Capital Framework Methodology

203. The investment amount that we deduct from reported equity to calculate TAC is net of the same adjustments that we make to the group's ACE (except the deduction of minority interests). Typically, those adjustments include netting the capital amount against goodwill and nonservicing intangibles.

Table 2

Calculation of total adjusted capital*

Starting point: Common shareholders' equity

Add "Minority interests: Equity"
Deduct dividends not yet distributed
Deduct revaluation reserves: deferred gains/losses related to cash-flow hedges
Deduct goodwill and nonservicing intangibles
Deduct interest-only strips
Add or deduct postretirement benefit adjustments
Add or deduct cumulative effect of credit-spread-related revaluation of liabilities
Deduct investments in insurance subsidiaries (as per paragraphs 41-43) and significant minority investments in financial institutions
Add or deduct other equity adjustments
Deduct deferred tax assets (DTAs) that rely on future profitability
= Intermediate ACE
Deduct certain DTAs arising from timing differences (subject to threshold)
= Adjusted common equity (ACE)
Add preferred stock and hybrid capital instruments (subject to limits)
= Total adjusted capital (TAC)

*For details on each of the adjustments and measures of capital included in this table, please see the relevant sections.

Financial Institutions Rating Methodology

106. We base our analysis of the quality, management, and flexibility of capital on a number of factors and ratios--some applicable to all types of FIs and some particular to certain types of FIs. For all FIs, examples of factors we may consider include:

- The portion of capital that's hybrid instruments, which typically have a lower ability to absorb losses than common equity;
- Whether other measures of capital not considered in Step 2 of our capital and earnings assessment--such as regulatory metrics or other measures of leverage and capital--may reflect a stronger or weaker capital position than that reflected in the capital measure in Step 2;
- The level of reserves for loan losses and whether they may add significantly more or less to the loss-absorption ability (perhaps because of differences in accounting standards);
- The approach to capital management exercised by the entity's management, board, and shareholders and whether the capital measure in Step 2 could change materially over a longer period;
- The proximity of the entity's regulatory capital metrics to any regulatory requirements and how this affects its flexibility to manage capital;

Request For Comment: Risk-Adjusted Capital Framework Methodology

- If the securities' fair-value revaluation reserves in other comprehensive income incorporate unrealized gains or losses on AFS securities that have been reclassified to held-to-maturity (HTM), and we believe--consistent with the accounting presentation--that the issuer has the intent and ability to hold the securities to maturity and thus not realize that unrealized gain/loss, we may consider a positive or negative adjustment to offset the unrealized gain/loss;
- Whether we believe there's an increased risk that significant unrealized losses on HTM securities may be recognized to address funding, liquidity, or future earnings performance. Metrics we may consider in assessing the potential significance of unrealized losses include the size of the unrecognized losses relative to capital, the proportion of HTM securities relative to total securities, the duration of the HTM securities, and tangible common equity/tangible assets;
- Financial flexibility--the degree to which we consider that the entity could plausibly and materially boost capital by reducing share repurchases, calling committed capital, or through other means (such as selling substantial equity holdings) that would not significantly damage its franchise, earnings capacity, or investor confidence;
- Double leverage to the extent that this isn't captured in the ratio used in the initial score and when the initial score is based on the ratio of an entity owned by a nonoperating holding company; and
- Any material constraints on the flow of loss-absorbing capital among group members.

RELATED PUBLICATIONS

Criteria to be fully superseded

- [Risk-Adjusted Capital Framework Methodology](#)

Related criteria

- [Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology](#)
- [Methodology For Rating Non-U.S. Public-Sector Funding Agencies](#)
- [Financial Institutions Rating Methodology](#)
- [Principles Of Credit Ratings](#)

A complete list of S&P Global Ratings' criteria articles can be found on <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria>.

Other publications

- [A Closer Look Into The Proposed Changes To Our Risk-Adjusted Capital Framework Methodology](#), Nov. 3, 2025
- [Further Details On "Request For Comment: Risk-Adjusted Capital Framework Methodology"](#), Nov. 3, 2025
- [S&P Global Ratings Definitions](#)

This article is proposed Criteria. Criteria are the published analytic framework for determining Credit Ratings. Criteria include fundamental factors, analytical principles, methodologies, and /or

Request For Comment: Risk-Adjusted Capital Framework Methodology

key assumptions that we use in the ratings process to produce our Credit Ratings. Criteria, like our Credit Ratings, are forward-looking in nature. Criteria are intended to help users of our Credit Ratings understand how S&P Global Ratings analysts generally approach the analysis of Issuers or Issues in a given sector. Criteria include those material methodological elements identified by S&P Global Ratings as being relevant to credit analysis. However, S&P Global Ratings recognizes that there are many unique factors / facts and circumstances that may potentially apply to the analysis of a given Issuer or Issue. Accordingly, S&P Global Ratings Criteria is not designed to provide an exhaustive list of all factors applied in our rating analyses. Analysts exercise analytic judgement in the application of Criteria through the Rating Committee process to arrive at rating determinations.

Contact List

Analytical Contacts

Matthew B Albrecht, CFA
Englewood
1-303-721-4670
matthew.albrecht
@spglobal.com

Methodology Contacts

Steven Ader
New York
1-212-438-1447
steven.ader
@spglobal.com

Analytical Contacts

Elena Iparraguirre
Madrid
34-91-389-6963
elena.iparraguirre
@spglobal.com

Analytical Contacts

Deepali V Seth Chhabria
Mumbai
912261373187
deepali.seth
@spglobal.com

Methodology Contacts

Michelle M Brennan
London
44-20-7176-7205
michelle.brennan
@spglobal.com

Analytical Contacts

Mathieu Plait
Paris
33-14-420-7364
mathieu.plait
@spglobal.com

Analytical Contacts

Nicholas J Wetzel, CFA
Englewood
303-721-4448
nicholas.wetzel
@spglobal.com

Analytical Contacts

Anna Lozmann
Frankfurt
49-69-33999-166
anna.lozmann
@spglobal.com

Analytical Contacts

Alexander Ekbohm
Stockholm
46-84-40-5911
alexander.ekbohm
@spglobal.com

Analytical Contacts

Chizuru Tateno
Tokyo
81-3-4572-6220
chizuru.tateno
@spglobal.com

Analytical Contacts

Mehdi El mrabet
Paris
33-14-075-2514
mehdi.el-mrabet
@spglobal.com

Analytical Contacts

Osman Sattar, FCA
London
44-20-7176-7198
osman.sattar
@spglobal.com

Methodology Contacts

Marta Castelli
Buenos Aires
54-11-4891-2128
marta.castelli
@spglobal.com

Request For Comment: Risk-Adjusted Capital Framework Methodology

Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Some of the Content may have been created with the assistance of an artificial intelligence (AI) tool. Published Content created or processed using AI is composed, reviewed, edited, and approved by S&P personnel.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.