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RESEARCH PAPER

# Basel Endgame: Implementation Choices for Mid-Tier Banks

Reading capital reform as a strategic signal, not a compliance ceiling

**Margaret Osei — Head of Regulatory Strategy**

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# Executive Summary

As the final elements of Basel reform reach UK implementation, mid-tier banks face a genuine strategic choice that's frequently treated as a purely technical one: whether to treat the new capital requirements as a compliance ceiling to be met at minimum cost, or as a signal about where balance sheet strategy is heading regardless of the specific requirement.

This paper argues for the latter reading, drawing on Alden Advisory's regulatory strategy engagements with UK banks navigating the reform. Firms that build capital allocation processes around the direction of travel — rather than the letter of the current requirement — are better positioned for the next round of reform, which historically arrives faster than firms expect.

## What's Actually Changing

The mid-tier banking segment faces implementation choices that differ meaningfully from the largest institutions, which have dedicated regulatory affairs functions built for exactly this kind of reform cycle. Mid-tier banks frequently lack the internal capacity to model second-order effects of capital reform on lending strategy, and default to the narrowest compliant interpretation as a resourcing decision rather than a strategic one.

## Proportionality Is a Real Legal Concept

Proportionality provisions exist precisely to account for this capacity difference, but are frequently treated informally — as an excuse to under-invest in the underlying reporting infrastructure rather than a genuine, defensible basis for a differentiated compliance approach. Firms that treat proportionality as a documented, evidenced position tend to fare considerably better under subsequent supervisory review than firms treating it as an assumption.

## Building the Operating Model the Regulation Will Require

Our recommendation, consistent across engagements, is to build the reporting and capital allocation operating model around where the regulatory direction is heading — not simply what's currently required — since the gap between the two tends to close faster than institutional planning cycles anticipate. This requires resolving decision rights around capital allocation now, rather than waiting for the next reform cycle to force the question.