

# Basel III Endgame Evolution

## Banking Agencies Propose Major Capital Overhaul (Again)

March 20, 2026

On March 19, 2026, the federal banking agencies issued a package of proposed changes to the regulatory capital requirements for banking institutions of all sizes, from the largest [GSIBs](#) and [super-regional banks](#) to [community banks](#) (the “[Proposed Rules](#)”). This package of proposals is a second full attempt at implementing the 2017 “Basel III Endgame” international framework—following the agencies’ initial package of proposals in July 2023 (the “[2023 NPR](#)”)—to better reflect credit, trading and operational risk in the calculation of minimum regulatory capital ratios. If finalized, the rules would mark the culmination of a nearly decade-long effort to complete the fundamental overhaul of bank capital requirements initially spurred by the 2008-2009 financial crisis.

Given the complexity of the Proposed Rules, it will take time to fully absorb their potential implications. Below are high-level take-aways from the Proposed Rules, including their structural revisions to the 2023 NPR and current capital rules. Additional detail on key provisions is included in the accompanying summary chart.

- **[Broad Relief for Category III and IV Banks](#)**: While the 2023 NPR would have largely collapsed regulatory “tailoring” efforts by applying an “expanded risk-based approach” (“[ERBA](#)”) to every bank with at least \$100 billion in assets, the Proposed Rules restore the threshold for mandatory ERBA compliance to banks in Categories I and II (and, to a modified extent, those with significant trading or derivatives activity), generally consistent with the thresholds for “advanced approaches” and market risk requirements under existing capital rules.<sup>1</sup> Banks of any size would be permitted to opt in to ERBA standards, and Category III and IV banks would be required to recognize AOCI in regulatory capital, subject to a five-year phase-in period. The Proposal estimates that several Category III and IV banks, and up to one-third of smaller banks, would see significant reductions in capital requirements by opting in to the ERBA standards.
- **[Modified Standardized Approach](#)**: The Proposed Rules would revise the “Standardized Approach” (broadly applicable to banks not subject to the ERBA) to improve the risk sensitivity of capital risk weightings and deductions applicable to various asset classes.
- **[“Single Stack” Structure](#)**: The Proposed Rules would eliminate “dual stack” RWA calculations (*i.e.*, as currently applicable to “advanced approaches” institutions), and instead require only a single calculation of capital requirements for each bank under either the ERBA or Standardized Approach.
- **[Improved Risk-Sensitivity for Core Businesses](#)**: The Proposed Rules would implement a structural shift in the banking agencies’ approach towards mortgage, consumer and corporate finance, pivoting away from

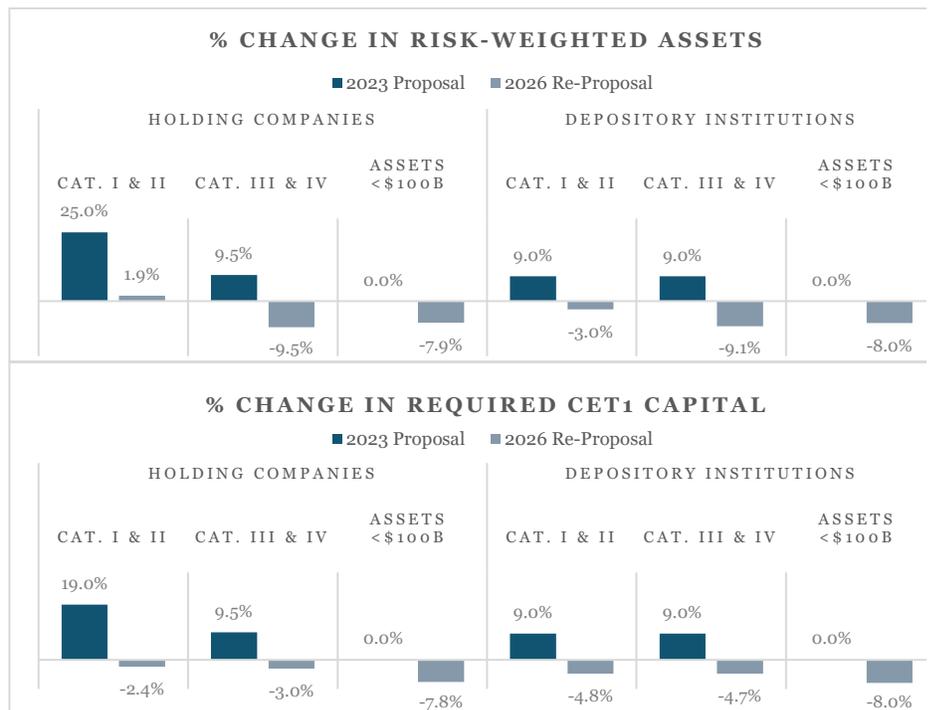
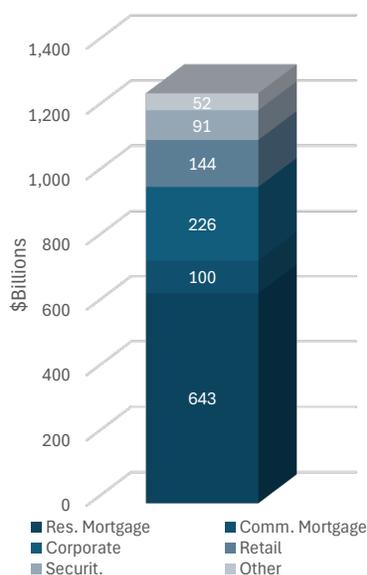
<sup>1</sup> The Proposed Rules do not adjust supervisory “category” thresholds (*e.g.*, by indexing to growth or inflation), despite Vice Chair Bowman and others having discussed the merits of such changes.

the gold-plated surcharges and punitive risk weights of the 2023 NPR in favor of a framework that prioritizes alignment with international standards and the restoration of risk-based regulatory tailoring to “better support the flow of credit to households and businesses” and reduce incentives for these activities to “migrate outside of the regulated banking sector.” Reductions in risk weights for residential mortgage loans (and elimination of capital deductions for mortgage servicing assets), as well as corporate and consumer loans (other than credit cards) are expressly intended to expand bank lending in these areas.

- Fresh Approach to Operational and Market Risk:** The proposed ERBA would include standardized operational and market risk capital requirements with the goal of avoiding the perceived uncertainty and volatility associated with the current model-based methods. The revised operational risk component would use three-year averages to smooth fluctuations, recalibrate proxy measurements of business volume for non-interest-related operations, and reduce capital charges for activities that historically exhibit lower operational risk levels, such as investment management and treasury services. The revised market risk component would introduce a default standardized approach for market risk, allowing a bank to use internal models for calculating market risk only with supervisory approval, and only if its models are sufficiently robust on a trading desk-by-desk basis.

### Projected Capital Impacts<sup>2</sup>

**\$1.26T**  
Add'l. Balance Sheet Loan Capacity  
(Standardized Approach Banks)



<sup>2</sup> Based on federal banking agency projections included in the Proposed Rules. Includes impacts of AOCI recognition and GSIB surcharge proposal.

## BASEL III ENDGAME RE-PROPOSAL – KEY PROVISIONS

Areas of Impact	2023 Proposal	2026 Re-Proposal
<b>Scope and Tailoring</b>		
Scope of Application – Demarcation Line Moved from \$100B to \$700B	<ul style="list-style-type: none"> <li>Applied all aspects of the Basel III Endgame reforms (e.g., Credit Risk, Operational Risk, Market Risk, “Credit Valuation Adjustment” Risk) to all banks with assets ≥ \$100B (Categories I-IV)</li> </ul>	<ul style="list-style-type: none"> <li>All banks <i>other than</i> Category I and II banks (≥ \$700B in assets) generally <i>exempt</i> from new Operational Risk, Market Risk, “Credit Valuation Adjustment” Risk frameworks<sup>3</sup></li> <li>All banks (regardless of asset size) subject to modified risk weights—with heightened risk sensitivity compared to current rules—for credit exposures and equity investments, but generally lower operational complexities for risk weight determinations under new “standardized approach” for banks &lt;\$700B in assets compared to “expanded risk-based approach” (“ERBA”) for banks ≥ \$700B in assets</li> </ul>
Scope of Application – Category III and IV-Specific Considerations	<ul style="list-style-type: none"> <li>Eliminated the AOCI opt-out for Category III and IV banks (\$100B – \$700B in assets), requiring inclusion of unrealized gains/losses on securities in capital with a 3-year phase-in transition period</li> <li>Expanded supplementary leverage ratio to apply to Category IV banks</li> </ul>	<ul style="list-style-type: none"> <li>Still requires AOCI capital recognition for all banks with assets ≥ \$100B, but extends the phase-in transition period to 5 years</li> <li>Category IV banks not subject to supplementary leverage ratio</li> </ul>
Elimination of “Dual-Stack” Risk-Weighted Assets Calculation Requirements	<ul style="list-style-type: none"> <li>Required all Category I-IV banks to conduct “<i>dual stack</i>” RWA calculations under both Standardized Approach and ERBA (similar to dual calculation requirements currently applicable to “advanced approaches” institutions)</li> <li>Effectively imposed <i>third stack</i> calculation requirement by applying “output floor” to ERBA calculations, setting capital requirements calculated using internal models at no lower than 72.5% of those required for ERBA components under standardized calculations</li> </ul>	<ul style="list-style-type: none"> <li>Adopts a significantly simplified “<i>single stack</i>” approach for all banks: Banks ≥\$700B in assets subject <i>only</i> to ERBA calculation, and banks &lt;\$700B in assets subject <i>only</i> to standardized approach calculation.</li> <li>Eliminates output floor for ERBA calculations</li> <li>Any bank of any size can opt in to the ERBA framework (subject to AOCI recognition described above)</li> </ul>
<b>GSIBs</b>		
GSIB Surcharge Score – Indicator Recalibration	<ul style="list-style-type: none"> <li>Narrowed Method 2 score and surcharge “bands” and incorporated “average value” (rather than point-in-time) calculations, but did not recalibrate for inflation or growth</li> </ul>	<ul style="list-style-type: none"> <li>GSIB surcharge score coefficients updated for inflation and economic growth, with ongoing future indexing</li> </ul>

<sup>3</sup> Category II banks that would be subject to Operational Risk, Market Risk, and CVA Risk frameworks also include banks with ≥ \$75B in cross-jurisdictional activity, regardless of asset size. Market Risk and CVA Risk frameworks would also apply to banks that are not in Category I or II but have significant trading activity (and, in the case of the CVA Risk framework, significant OTC derivative exposures).

Descriptions in this summary chart of provisions applicable to banks with “≥\$700B in assets” would also apply to these other banks that have <\$700B in assets but also significant cross-jurisdictional, trading and/or derivatives activities.

Areas of Impact	2023 Proposal	2026 Re-Proposal
GSIB Surcharge Score – Cliff Effects and Volatility	<ul style="list-style-type: none"> <li>Adjusted calculation of systemic indicators from measuring as of a single year-end date (allowing for temporary “window dressing” at year-end) to measuring based on average daily or monthly values</li> <li>Reduced Method 2 surcharge increments from 0.5% (allowing for possible “cliff effects” of small systemic score increase leading to large capital charge) to 0.1%</li> </ul>	<ul style="list-style-type: none"> <li>Systemic indicators calculated based on average daily or monthly values, rather than as of a single date</li> <li>Method 2 surcharge increments reduced to 0.1%</li> </ul>
Wholesale Funding	<p>Retained following current rule features:</p> <ul style="list-style-type: none"> <li>Short-term wholesale funding indicator value represents higher proportion of Method 2 scores (~30%) than originally envisioned by Fed’s 2015 GSIB surcharge score rules (~20%)</li> <li>Score varies based on wholesale funding in proportion to bank’s RWA (resulting in wholesale funding scores that decrease as bank size increases, even with unchanged wholesale funding levels)</li> </ul>	<ul style="list-style-type: none"> <li>Relative weight of short-term wholesale funding indicator value reduced to ~20% of Method 2 surcharge score</li> <li>Score varies solely on wholesale funding levels, regardless of size of bank’s RWA</li> </ul>
Client-Cleared Derivatives	Included bank guarantees of client performance on derivatives to a central clearing counterparty in “interconnectedness” and “complexity” indicators (which commenters claimed would result in higher costs and more volatility for derivative end-users)	Does not include client-cleared derivatives in Interconnectedness and Complexity indicators (avoiding 2023 proposal’s possible disincentive to provide client access to central clearing)
<b>Mortgages</b>		
Residential Mortgages	Risk weights varied based on LTV and whether the property is income-producing, with risk weights for each LTV “band” gold-plated by 20 percentage points above Basel III standards	<ul style="list-style-type: none"> <li><b>Banks ≥ \$700B:</b> Undoes 20% RWA gold-plating – risk weights to match international standards for each LTV band</li> <li><b>Banks &lt; \$700B:</b> Largely undoes RWA gold-plating, but applies a 5 percentage point across-the-board “add-on” to account for operational risk (since non-Category I and II banks are exempt from standalone Operational Risk framework)</li> <li>Compared to 50% risk weight under current rules, proposal would apply equal or lower risk weights to mortgages up to 90% LTV (Standardized) or 100% LTV (ERBA) for non-cash flow-dependent mortgages, and 80% LTV (Standardized and ERBA) for cash flow-dependent mortgages</li> </ul>
Exposures to Income Producing Residential Real Estate	Deemed mortgage loans (except on a borrower’s principal residence) to be “dependent” on cash flows from underlying real estate (and subject to higher risk-weighting bands) if bank considered <i>any</i> proceeds from underlying property in underwriting borrower’s repayment ability.	Does not accommodate widespread calls from public commenters to narrow scope of “cash flow dependent” mortgages subject to higher risk-weighting bands (10 – 35 percentage points above non-cash flow dependent exposures within same LTV band), but seeks public comment on adding materiality qualifier to consideration of property-based income

Areas of Impact	2023 Proposal	2026 Re-Proposal
Mortgage Servicing Assets	Eliminated simplified threshold capital deduction framework for MSAs for Category III and IV banks, reducing individual deduction threshold from 25% to 10% and applying a 15% aggregate deduction threshold (shared with DTAs and unconsolidated financial institution investments)—same as Category I and II banks	Removes any requirement to deduct MSAs from regulatory capital for all banks, and applies a 250% risk weight to all MSAs (while seeking comment on whether a different risk weight would be more appropriate)
Private Mortgage Insurance	Explicitly refused to recognize risk-mitigating benefits of PMI for purposes of calculating LTV ratios or assigning risk weights	Does not accommodate widespread calls from public commenters to recognize PMI credit risk mitigation, but seeks public comment on appropriate role of PMI as a credit risk mitigant for regulatory capital purposes
<b>Other Credit Risk</b>		
Retail Exposures – General	Risk weights varied based on product type, portfolio diversification and payment history, with risk weights for each retail exposure category gold-plated by 10 percentage points above Basel III standards	<ul style="list-style-type: none"> <li>• <b>Banks <math>\geq</math> \$700B:</b> Undoes 10% RWA gold-plating – risk weights to match international standards for each retail / consumer exposure type</li> <li>• <b>Banks <math>&lt;</math> \$700B:</b> Applies a single across-the-board 90% risk weight for most retail exposures (vs. 100% under current standardized rules), without segmenting by product type or repayment history</li> <li>• Standardized risk-weight approximately reflects hypothetical weighted-average risk weight under ERBA,<sup>4</sup> plus 10% “add-on” to account for operational risk</li> </ul>
Retail Exposures – Credit and Charge Cards	<ul style="list-style-type: none"> <li>• Preferential 45% risk weight for “transactor” card exposures only available if fully repaid each month over 12-month look-back (with no exceptions for immaterial monthly balances, bank promotions / grace periods, etc.)</li> <li>• Proxy method for determining “undrawn amount” of charge cards with no pre-set spending limit based on average draw amounts over 2-year look-back, multiplied by 10x multiplier</li> </ul>	<ul style="list-style-type: none"> <li>• Does not accommodate widespread calls from public commenters to broaden scope of “transactor” credit card exposures eligible for more favorable risk-weight under ERBA</li> <li>• Simpler, less-punitive proxy method for determining “undrawn amount” of charge cards based on highest daily drawn amount over 2-year look-back, without additional multiplier</li> </ul>
Retail Exposures – “Regulatory” Retail	<ul style="list-style-type: none"> <li>• Favorable 75% risk weight for consumer loans only available if total exposures to single borrower <math>&lt;</math> \$1 million “aggregate limit,” and individual exposure <math>&lt;</math> “granularity limit” of 0.2% of the bank’s total regulatory retail portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Eligibility for favorable 75% risk weight under ERBA not subject to any per-exposure “granularity limit,” and aggregate limit criterion indexed to inflation</li> </ul>

<sup>4</sup> Federal Reserve used special data collection exercise to determine weighted average risk weights that would apply to applicable assets of Category III and IV U.S. banks under the ERBA (as if those banks were subject to ERBA).

Areas of Impact	2023 Proposal	2026 Re-Proposal
Corporate Exposures	Allowed preferential 65% risk weight for exposures to investment-grade companies, but only if the obligor company is publicly traded	<ul style="list-style-type: none"> <li>• <b>Banks <math>\geq</math> \$700B:</b> Preferential 65% risk weight extended to <i>any</i> company deemed “investment grade” based on bank’s qualifying internal credit risk rating system, without any public listing criterion (100% for other corporate exposures)</li> <li>• <b>Banks <math>&lt;</math> \$700B:</b> Applies a single across-the-board 95% risk weight for most corporate exposures (vs. 100% under current standardized rules), without segmenting by borrower creditworthiness</li> <li>• Standardized risk-weight approximately reflects hypothetical weighted-average risk weight under ERBA, plus 10% “add-on” to account for operational risk</li> </ul>
Small & Medium Enterprise Exposures	Did not incorporate Basel III’s separate preferential risk weight (85%) for exposures to SMEs; defaults SME exposures to 100% risk weight	Does not accommodate calls from public commenters to adopt separate 85% risk weight for SMEs
“Credit Conversion Factors” – Not Unconditionally Cancellable	<ul style="list-style-type: none"> <li>• Changed risk weighting approach for off-balance sheet commitments from a series of graduated CCFs based on maturity to a single 40% CCF</li> </ul>	<ul style="list-style-type: none"> <li>• Applies flat 40% CCF to all undrawn / off-balance sheet commitments that are not unconditionally cancelable (regardless of original maturity)</li> </ul>
“Credit Conversion Factors” – Unconditionally Cancellable	Increased CCF for unconditionally cancelable off-balance sheet commitments from 0% to 10%	<ul style="list-style-type: none"> <li>• <b>Banks <math>\geq</math> \$700B:</b> Applies 10% CCF for undrawn / off-balance sheet commitments</li> <li>• <b>Banks <math>&lt;</math> \$700B:</b> Retains currently applicable 0% CCF (no capital charge) for unconditionally cancelable undrawn / off-balance sheet commitments<sup>5</sup></li> </ul>
<b>Other Investments</b>		
Equity Exposures	<ul style="list-style-type: none"> <li>• Eliminated current rule’s “bucket” for non-significant equity exposures (up to 10% of the bank’s capital) to receive 100% risk weight, and instead defaults to tiered equity exposure risk weights from 250% to 1,250%</li> <li>• More than doubled risk weight for equity exposures to investment firms with material leverage from 600% under current rules to 1,250%</li> </ul>	<ul style="list-style-type: none"> <li>• Retains currently applicable risk weights for most equity exposures, including 100% for non-significant equity exposures and 600% for investment firms with material leverage</li> </ul>
“Sin Bucket” Capital Deductions	Eliminated simplified threshold capital deduction framework for DTAs, MSAs and investments in unconsolidated financial institutions for Category III and IV banks (with a single 25%-of-CET1 individual deduction threshold), requiring regional banks to instead apply more onerous 10%-of-CET1 individual deduction threshold and 15%-of-CET1 aggregate deduction threshold (shared across MSAs, DTAs and unconsolidated financial institution investments)	<ul style="list-style-type: none"> <li>• <b>Banks <math>\geq</math> \$700B:</b> Retains currently applicable 10%/15% “sin bucket” capital deduction framework, but removes MSA deduction requirement (as noted above)</li> <li>• <b>Banks <math>&lt;</math> \$700B:</b> Retains simpler capital deduction threshold framework for Category III and IV banks, and removes MSA deduction requirement (as noted above)</li> </ul>

<sup>5</sup> The separate supplementary leverage ratio rules would continue to apply a minimum 10% CCF for off-balance sheet exposures, even if a bank subject to the SLR is not subject to the ERBA (like Category III banks).

Areas of Impact	2023 Proposal	2026 Re-Proposal
<b>Operational Risk</b>	<b>(All Category I-IV Banks)</b>	<b>(Category I and II Banks Only)</b>
Internal Loss Multiplier (ILM)	Proposed ILM (scalar to adjust operational risk requirements to firm-specific history of operational losses) assigned a floor of 1.0, allowing firm's operational loss history to increase—but not decrease—capital charges	ILM eliminated, so that operational risk capital charges based solely on business volume (“business indicator” proxy) and not adjusted upwards or downwards by loss history
Business Indicator – Subcomponents	<ul style="list-style-type: none"> <li>• Consisted of separate (1) interest, lease, and dividend component; (2) services component; and (3) financial component</li> <li>• Business volume thresholds for increased coefficient multipliers not indexed to inflation</li> </ul>	<ul style="list-style-type: none"> <li>• Collapses separate business indicator subcomponents into (1) <i>capped</i> interest, lease, and dividend component, and (2) a unified <i>uncapped</i> “noninterest” component (combining elements of the 2023 proposal’s “services” and “financial” components)</li> <li>• Business volume thresholds for applicable coefficient scale indexed to inflation</li> </ul>
Business Indicator – Non-Interest Income / Expenses	Services component business volume based on <i>gross</i> amounts of income / expenses, reflecting the larger of either income or expense	Non-interest component business volume calculated on a <i>net basis</i> to avoid overly punitive capital charges for fee-based businesses
Business Indicator – Preferential Treatment for Lower-Risk Services	No differentiation among businesses that have demonstrated history of posing lower operational risk within Business Indicator calculation	Includes a 70% discount for net income attributable to investment management, investment services, and non-lending treasury services when calculating Business Indicator volume
<b>Market Risk</b>	<b>(All Category I-IV Banks)</b>	<b>(Category I and II Banks, and Others with Significant Trading Activity)</b>
Internal Models Approach	<ul style="list-style-type: none"> <li>• Allowed use of internal models only on a trading desk-by-desk basis (unlike current rules that apply modeling on an enterprise-wide basis)</li> <li>• Trading desk eligible for internal model-based market risk calculations only if able to demonstrate that its models are sufficiently accurate relative to front-office financial reporting (under “Profit and Loss Attribution” test based on <i>two</i> statistical metrics) and sufficiently conservative to capture historical tail risks (under “Backtesting” requirements)</li> </ul>	<ul style="list-style-type: none"> <li>• Retains “trading desk” approach—and PLA / Backtesting requirements—for market risk internal model eligibility</li> <li>• Banks which do not qualify to use internal models must use standardized approach to market risk</li> <li>• PLA test requires use of only statistical metrics</li> </ul>
Consequences for Insufficiently Accurate / Conservative Internal Models	<ul style="list-style-type: none"> <li>• Failure to satisfy PLA test or Backtesting requirements resulted in trading desk being ineligible to use internal models (reverts to generally higher capital charges under standardized market risk calculations) (“red zone”)</li> <li>• Applied capital surcharge “add-on” to trading desks with PLA deficiencies that are not material enough to require reversion to standardized market risk calculations (“amber zone”)</li> </ul>	<ul style="list-style-type: none"> <li>• Retains “traffic light” structure (green / amber / red zones) of increasing consequences for internal model deficiencies—including reverting to standardized market risk calculations for material model deficiencies</li> <li>• Allows 3-year transition period for PLA testing results during which PLA deficiencies would not require reversion to standardized market risk calculations or PLA “add-on”</li> </ul>
Default Risk Capital (DRC) Requirement	Prohibited internal modeling for DRC requirements to capture losses on credit and equity positions in the event of obligor default, and instead required standardized approach for all DRC calculations	Does not accommodate calls from public commenters to allow banks’ internal models for DRC requirements, but allows a single, entity-wide calculation of standardized DRC

Areas of Impact	2023 Proposal	2026 Re-Proposal
<b>CVA Risk</b>	<b>(All Category I-IV Banks)</b>	<b>(Category I and II Banks, and Others with Significant Trading &amp; Derivative Activity)</b>
Client-Facing and Cleared Derivative Exemptions	Excluded derivative transactions directly facing a central counterparty, but imposed CVA capital charges against client-facing legs of derivatives ( <i>e.g.</i> , where the bank enters into an offsetting transaction with a CCP or guarantees client performance to a CCP)	Excludes CCP-facing cleared derivatives as well as client-facing leg of cleared derivatives from CVA capital requirements (preserving incentives for central clearing)
End-User Derivatives	Did not exempt derivative transactions with commercial end-users ( <i>e.g.</i> , non-financial corporations, municipalities, funds)—which are often uncollateralized and lack access to large pools of marginable liquidity—from CVA capital charges, resulting in significantly higher capital requirements for an uncollateralized end-user derivative compared to existing requirements under SA-CCR	Does not accommodate widespread calls from public commenters to broadly exempt commercial end-user derivatives ( <i>e.g.</i> , corporate hedging) from CVA Risk capital requirements
<b>Collateralized Transactions</b>		
Securities Financing Transactions (SFT) – Collateral Value Haircuts	Introduced mandatory minimum SFT haircut floors (which were not adopted by major jurisdictions like U.K. and EU)—effectively establishing minimum amounts of collateral banks must receive when engaging in certain repos and margin loans—and imposed heightened capital requirements for repos / margin loans that did not meet minimum collateral requirements	<ul style="list-style-type: none"> <li>• Eliminates minimum haircut floors for SFTs</li> <li>• Requires banks to apply <i>standardized</i> market price volatility haircuts to collateral value (rather than haircuts based on internal estimates)</li> <li>• “Simple” (risk weight substitution) approach available under Standardized Approach (Banks &lt; \$700B)</li> </ul>
Credit-Linked Note Recognition	Ad hoc Federal Reserve determinations (on a bank-by-bank basis) regarding RWA treatment for CLNs issued by the bank against exposures in the banking book that fulfil some, but not all, of the criteria for synthetic securitizations ( <i>e.g.</i> whether pre-funded cash proceeds are eligible credit mitigant similar to cash collateral)	Codifies treatment of “prepaid credit protection” ( <i>e.g.</i> , directly issued, cash-funded CLN transactions) as eligible credit risk mitigants—expanding, <i>e.g.</i> , eligibility for “synthetic securitization” treatment

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