Bitcoin Policy Institute

RESEARCH PAPER

Basel's 1,250% Mistake

Why Basel's Bitcoin Capital Treatment Is a Category Error—and How to Fix It

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Executive Summary

The Basel Committee's prudential standard for cryptoasset exposures (SCO60) assigns Bitcoin a 1,250% risk weight under Group 2b, the most punitive classification in the entire capital framework.[1] This treatment is a category error. It applies a tool designed for opaque, unrateable securitization tranches to a transparent, globally traded, zero-counterparty-risk asset whose risks (volatility, liquidity, operational) are measurable, hedgeable, and already addressable through existing Basel market-risk and operational-risk frameworks.

> **The 1,250% weight, in effect, serves less as an objective assessment of risk, but as a normative judgment against Bitcoin laundered through the language of prudential regulation.**

A 1,250% risk weight, multiplied by the 8% minimum capital ratio, produces a capital requirement equal to 100% of the exposure: dollar for dollar. With buffers and internal targets, the effective requirement exceeds the exposure. A bank holding $100 million in Bitcoin must allocate $100 million or more in capital against a position that generates no yield. Under any reasonable hurdle rate, this is functionally equivalent to a capital deduction: the business case for regulated-bank Bitcoin intermediation is dramatically harmed, if not eliminated entirely.

When the capital framework makes bank intermediation uneconomic, Bitcoin services suffer. American capital markets are renowned worldwide for the depth, sophistication, and regulatory credibility of their financial services. Yet those services are artificially constrained from extending to an asset class that now supports over 150 companies holding over 1.1 million bitcoin worth $78 billion in corporate Bitcoin treasury holdings,[2] hundreds of billions in annual trading volume, and a mature derivatives complex. The result is a widening gap between the demand for regulated Bitcoin services and the banking system's ability to supply them.

We recommend three tiers of reform:

IMMEDIATE

Domestic

Clarify that pure agency custody (where the bank takes no principal risk) is capitalized under the operational risk framework, consistent with the post-SAB 121 accounting shift. Provide a supervisory pathway for limited Bitcoin intermediation with inventory limits and audited custody standards.

MEDIUM-TERM

Basel Engagement

Replace the fixed 1,250% default with a conservative FRTB-based market-risk approach plus operational-risk add-ons. Substitute graduated concentration limits for the binary 2% cliff.

LONG-TERM

Principles-Based Classification

Create a "non-issuer digital commodity" category with capital determined by measurable risk dimensions rather than technology labels.

The Basel Committee's November 2025 decision to "expedite a targeted review of elements of the standard for banks' cryptoasset exposures" signals openness to change.[3] U.S. regulators should lead that revision rather than import a flawed standard.

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An Overview of Modern Risk Weighting Standards

Bank capital regulation rests on a deceptively simple formula: the amount of capital a bank must hold against an exposure is the product of the exposure amount, its assigned risk weight, and the minimum capital ratio. Understanding this mechanism is essential to grasping why the 1,250% treatment goes beyond conservative and becomes economically prohibitive.

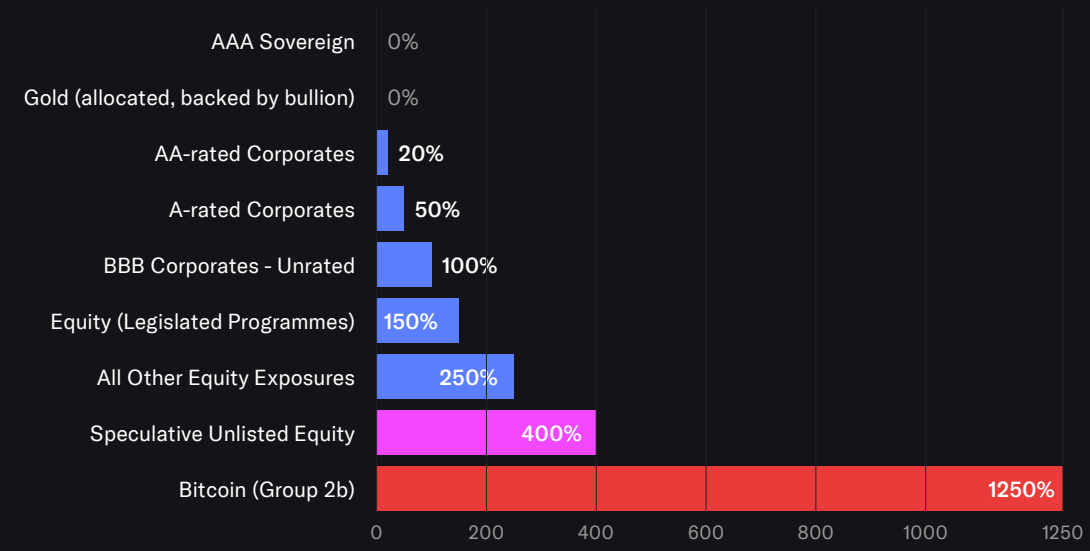
Risk Weights, RWA, and the Capital Stack

Under the Basel standardized approach, each asset class receives a risk weight. The exposure amount multiplied by the risk weight produces Risk-Weighted Assets (RWA). Banks must hold minimum capital as a percentage of RWA.[4] On top of the base minimum, banks often have to hold extra capital "buffers," such as the 2.5% capital conservation buffer, a countercyclical buffer that can range from 0–2.5%, and (for the largest firms) an additional surcharge of roughly 1–4.5%.[5]

Risk weights are Basel's shorthand for how risky different exposures are expected to be in a stress scenario: lower for assets viewed as safe and easily recoverable, higher for assets viewed as more likely to lose value. In the standardized approach, weights vary mainly by counterparty type (sovereign, bank, corporate, retail), credit quality, and the presence of credit risk mitigants like collateral, guarantees, and netting. Product features also matter—especially seniority and maturity, loan-to-value for mortgages, and whether an exposure is past due or in default (which drives much higher weights).

Exhibit 1 provides an overview of the standardized risk weights by asset class prescribed by the Basel III requirements.

Exhibit 1: Basel III Standardized Risk Weights by Asset Class



Source: Basel Framework CRE20 (credit), SCO60 (cryptoassets). All figures in % RWA (standardized).

Gold: The 0% Capital Benchmark

Under the standardized approach to credit risk (CRE20), the Basel Framework provides that "gold bullion held at the bank or held in another bank on an allocated basis, to the extent the gold bullion assets are backed by gold bullion liabilities" shall receive a 0% risk weight.[6]

> **An asset with no issuer carries no credit risk.** Gold cannot default because there is no counterparty to default.

This recognition reflects gold's millennia-long role as a universal store of value and monetary reserve asset. Central banks collectively hold over 36,000 tonnes of gold as part of their official reserves, and the metal has served as the anchor of successive international monetary systems—from the classical gold standard through Bretton Woods.

Gold's durability, fungibility, scarcity, and universal recognizability make it uniquely suited to absorb the 0% credit-risk weight: the holder bears no issuer risk, no contractual default risk, and no dependence on any sovereign's fiscal position.

Allocated gold held in a bank's own vaults is, in effect, a self-custodied bearer asset whose value rests on global market consensus rather than any single obligor's promise to pay. The Basel Framework's treatment of gold thus establishes a critical precedent: **where an asset carries zero counterparty credit risk, the capital framework should reflect that structural characteristic** rather than defaulting to a penalty weight.

Bitcoin: the 1,250% Penalty

The Basel cryptoasset standard (SCO60, finalized December 2022) sorts cryptoassets into two groups.[7] Group 1 covers tokenized traditional assets and qualifying stablecoins. Group 2 covers everything else—including Bitcoin—and carries the framework's most punitive treatment.[8] Although a Group 2a subclassification exists for cryptoassets with robust market infrastructure, no major jurisdiction has yet applied it to Bitcoin, despite the existence of CME-traded futures and options, eleven approved spot ETFs, and billions in options open interest.[9] The EU's CRR III, the UK PRA's consultation framework, and U.S. prudential regulators all default Bitcoin to Group 2b.

That classification is consequential. Group 2b assets receive a 1,250% risk weight, which under Basel's 8% minimum capital requirement translates to a near dollar-for-dollar capital charge—meaning a bank must hold roughly $1 of regulatory capital for every $1 of Bitcoin exposure, before considering buffers.

Basel further imposes aggregate Group 2 exposure caps—a soft limit at 1% of Tier 1 capital and a hard cap at 2%, beyond which all Group 2 holdings face the full 1,250% weight with no hedging recognition.[11] The cliff effect is economically binding well below the stated ceiling, as banks will rationally maintain wide buffers to avoid triggering it.

WORKED EXAMPLE

Capital Requirement for a $100M Bitcoin Position

Exposure:	$100,000,000 (Bitcoin spot holding)
Risk Weight:	1,250% (Group 2b, SCO60)
Risk-Weighted Assets:	$100M × 1,250% = $1,250,000,000
Minimum Capital (8%):	$1.25B × 8% = $100,000,000

Result: The bank must hold capital equal to the full value of the exposure, before buffers.

The capital math creates an impossible return-on-equity problem. If a bank targets a 12% ROE and must allocate $100 million of capital against a $100 million Bitcoin position, the business line must generate $12 million in annual revenue from that single position. Bitcoin yields nothing: no coupons, no dividends, no interest. Revenue must come entirely from trading gains, transaction fees, or lending activity.

By contrast, a $100 million investment-grade corporate loan at a 100% risk weight requires only $640,000 in minimum capital and produces 4–5% annual coupon income. The 1,250% weight, in effect, eliminates the business case for most bank activities involving Bitcoin.

> **Bitcoin shares many of the structural properties of gold.** It has no issuer, no counterparty obligation, and no credit risk in the traditional sense. The relevant question is whether the absence of credit risk means Basel should shift from a credit-risk-style maximum penalty to the market-risk and operational-risk frameworks designed to handle Bitcoin's actual risk channels.

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Why ‘Maximum Risk Weight’ Is the Wrong Tool for Bitcoin Risk

Like any asset, Bitcoin carries real risk. The fundamental problem with Basel’s 1,250% approach is that a flat, maximum-penalty risk weight fails to distinguish between risk channels that are real and measurable—volatility, liquidity, operational—and risks that are categorically absent, such as credit and counterparty risk. Existing Basel frameworks already contain sophisticated, calibrated tools for each of these risk dimensions. The 1,250% weight bypasses all of them.

Volatility is Already Addressed by Existing Frameworks

Bitcoin’s price volatility is genuine and significant. Bitcoin’s annualized volatility consistently ranges between 45% and 75% based on market developments, compared to 15% for gold and approximately 10% for global equities.[13] But volatility is precisely the type of risk that Basel’s market-risk framework—the Fundamental Review of the Trading Book (FRTB)—was built to handle.

The FRTB framework provides standardized and internal-model approaches that capture tail risk through Expected Shortfall (replacing Value-at-Risk), stress testing, default risk charges, and residual risk add-ons. These frameworks exist specifically to calibrate capital to an asset’s actual volatility profile rather than applying a one-size-fits-all penalty.

> **Bitcoin’s volatility is real—but it is measurable, hedgeable, and exactly the type of risk that FRTB was designed to address.** A blanket 1,250% risk weight treats measurable volatility as if it were unquantifiable.

A risk-sensitive approach would assign capital based on Bitcoin’s observed volatility and stress characteristics, producing capital charges that reflect actual risk rather than an assumption that Bitcoin is as opaque as the lowest-rated securitization tranche.

Liquidity Risk Favorable by Multiple Metrics

Bitcoin’s liquidity profile compares favorably to many assets that receive far more permissive capital treatment. Average daily spot trading volume on Bitcoin routinely ranges between $10 and $20 billion, with derivatives markets adding substantial depth.[14] CME crypto futures and options averaged over 340,000 contracts per day in 2025, representing $14.1 billion in notional value, with average daily open interest of 311,300 contracts ($31.3 billion notional).[15]

Bitcoin trades 24 hours a day, 365 days a year, across nearly 200 exchanges and over 2,500 markets globally. No equity, bond, or commodity market offers comparable continuous access to liquidity. The existence of deep, regulated derivatives markets further supports risk management capabilities that the 1,250% treatment ignores entirely.

Settlement in Bitcoin is Much Faster Than Traditional Markets

Bitcoin’s on-chain settlement provides probabilistic final settlement in approximately one hour (six block confirmations). The Lightning Network, Bitcoin’s primary Layer 2 scaling solution, provides near-instantaneous settlement and now exceeds $1 billion in monthly transaction volume.[16]

Asset / Market	Settlement Time	Mechanism
Bitcoin (on-chain)	~60 min (6 confirmations)	Probabilistic finality
Bitcoin (Lightning)	Near-instant	Layer 2 payment channels
Gold (LBMA)	T+2 business days	LBMA auction + clearing
U.S. Equities	T+1 (eff. May 2024)	DTCC / CCP clearing
U.S. Treasuries	T+1	Fedwire / DTCC
Corporate Bonds	T+1 to T+2	DTCC / bilateral

Exhibit 2: Bitcoin’s settlement compares favorably even against the T+1 standard for U.S. securities (effective May 28, 2024).

Bitcoin’s settlement architecture eliminates intermediary risk that the traditional system manages through central counterparties. The speed and finality of Bitcoin settlement should, under a risk-sensitive framework, work in its favor rather than being ignored by a blanket penalty weight.

Transparency and Auditability: Bitcoin’s Structural Advantage

Bitcoin’s transparency infrastructure is structurally superior to that of physical commodities, including gold, across every dimension relevant to prudential oversight. Every transaction is recorded on a public, immutable ledger. Holdings can be cryptographically verified in real time. Supply is algorithmically fixed and auditable by anyone.

Dimension	Bitcoin	Gold
Supply verification	Real-time, algorithmic, public	Estimated; relies on mining reports
Transaction audit trail	Complete, immutable, public ledger	Opaque OTC; LBMA self-reports
Holdings verification	Cryptographic proof of reserves	Physical audit (costly, periodic)
Counterparty transparency	Pseudonymous but fully traceable	Bilateral, often confidential
Trading hours	24/7/365	Business hours, 5 days/week
Price discovery	197 exchanges, 2,553 markets	2 daily LBMA fixes + OTC

Exhibit 3: Bitcoin’s transparency infrastructure is structurally superior to that of physical commodity markets.

These transparency characteristics should, under any risk-sensitive framework, reduce the information asymmetry premium embedded in capital requirements rather than increase it. A prudential regime that penalizes the most transparent asset in financial markets more heavily than opaque commodity markets reveals a framework driven by category rather than risk.

Operational Risk with Managing Assets like Bitcoin

Key management, custody controls, cybersecurity, and governance represent the most significant and distinctive risks associated with bank engagement with Bitcoin. These are genuine concerns. But operational risk has its own dedicated Basel framework (OPE25),[19] and banks already manage operationally complex assets—from derivatives to syndicated loans to trade finance—within that framework.

The appropriate regulatory response is to set clear custody and control standards rather than to apply a maximum credit-risk penalty to an operationally distinctive asset. U.S. regulators have already begun this work: OCC Interpretive Letters have established that banks may provide crypto custody services subject to safety and soundness requirements including technology risk management, operational resilience, cybersecurity, liquidity management, and illicit finance prevention.[20]

> **Operational risk is real—but Basel already has a framework for it.** The 1,250% weight double-counts operational risk by embedding it in a credit-risk penalty that also captures volatility, liquidity, and every other risk channel simultaneously.

A Note on Legal and Regulatory Risk

The enforceability of custody arrangements and the bankruptcy treatment of digital assets vary across jurisdictions and remain areas of active legal development. However, these are features of the legal environment, not inherent characteristics of Bitcoin as an asset. Legal risk can be mitigated through clear regulatory frameworks—precisely the kind of clarity that the GENIUS Act,[21] OCC Interpretive Letters,[22] and the CFTC’s pilot programs are beginning to provide.

A prudential framework that permanently penalizes an asset class for the current state of legal development, rather than calibrating capital to measurable risk characteristics, conflates regulatory uncertainty with asset risk.

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Real Economy and Banking System Consequences

The 1,250% risk weight brings with it real consequences. This section documents where the risk goes when regulated banks cannot participate, and why the resulting market structure is worse for financial stability, consumers, and U.S. competitiveness.

Corporate Bitcoin Treasuries Locked Out of Regulated Services

Corporate adoption of Bitcoin as a treasury asset has accelerated dramatically. Today, approximately over 153 companies hold Bitcoin on their balance sheets, with collective holdings of approximately 1.13 million BTC worth over $78 billion.[23] Bernstein projects that public companies could allocate up to $330 billion to Bitcoin over the next five years.[24]

These companies need banking services: custody, lending against Bitcoin collateral, treasury management, settlement, and hedging. When the capital framework makes it uneconomic for banks to provide these services, corporate treasurers are forced into less regulated channels—exactly the pattern that produced the FTX collapse, where a Bahamas-domiciled exchange commingled customer funds and caused over $8 billion in losses.[25]

> **153+ companies hold over 1.1 million BTC worth $78 billion.** These companies need banking services that the 1,250% risk weight makes uneconomic for banks to provide.

Impacts Individuals and Small Businesses

When banks cannot economically engage with Bitcoin, individuals and SMBs who hold or transact in it face limited access to integrated banking services. This pushes them toward cryptocurrency exchanges, fintech applications, and offshore platforms that operate outside the traditional banking regulatory framework.

The consequences are predictable: weaker consumer protections, reduced AML/KYC oversight, higher fraud risk, and fragmented financial lives where customers must maintain parallel relationships with regulated banks and unregulated crypto platforms. The capital framework, intended to protect the banking system, instead pushes activity into exactly the channels least equipped to protect consumers.

U.S. Capital Markets: Artificially Constrained

American capital markets are renowned worldwide for the depth, sophistication, and regulatory credibility of their financial services infrastructure. Yet the Basel cryptoasset standard artificially constrains these markets from extending their capabilities to an asset class that is rapidly integrating into global finance.

The result is a competitive disadvantage. The EU's Markets in Crypto-Assets Regulation (MiCA) became fully applicable on December 30, 2024, with over 40 licenses issued by June 2025. Hong Kong, Singapore, and Switzerland have all established clear regulatory frameworks that enable regulated financial institutions to engage with digital assets. All three Asia-Pacific hubs offer 0% capital gains tax and clear licensing frameworks.

If U.S. banks cannot competitively offer Bitcoin-related services, the activity will not disappear—it will migrate to jurisdictions where regulated institutions can participate, or to unregulated channels where no institution provides oversight. Neither outcome serves U.S. financial stability or competitiveness.

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Policy Options: A Three-Tier Reform Agenda

On November 18–19, 2025, the Committee announced it would "expedite a targeted review of elements of the standard for banks' cryptoasset exposures."[26] This signals that the Committee itself recognizes the standard requires revision.[27]

We propose U.S. regulators pursue three tiers of reform, ranging from steps U.S. regulators can take immediately to long-term structural changes at the Basel level. Each tier includes specific, implementable recommendations.

Tier 1: Immediate / Near-Term (Domestic Supervisory Action)

These actions require no Basel-level changes and can be implemented through existing U.S. regulatory authority:

Custody carve-out. Clarify that pure agency custody and safekeeping (where the bank holds no principal position and takes no market risk) remains off-balance-sheet (consistent with SAB 122[28]) and is capitalized solely under the operational risk framework. This aligns capital treatment with the economic substance of the activity.

Supervised intermediation pathway. Provide a clear supervisory pathway for banks to engage in limited, well-controlled Bitcoin intermediation, including client facilitation and controlled market-making, with inventory limits, position reporting, and audited custody standards.

Tier 2: Medium-Term (Basel Engagement and Recalibration)

These actions require U.S. regulators to engage the Basel Committee's expedited targeted review with specific proposed amendments:

Replace the 1,250% default with FRTB-based capital. Define a "non-issuer digital commodity" bucket (Bitcoin-like assets) and specify that its capital should be determined under the FRTB Standardised Approach with conservative risk-weight floors, an explicit operational-risk add-on for custody and key management, and stress-testing overlays calibrated to Bitcoin's observed tail risk.

Graduated exposure limits. Replace the binary 2% hard-cap cliff with a graduated exposure-limit schedule rather than all-exposure reclassification to 1,250%. This eliminates the catastrophic cliff effect that currently makes banks manage well below the threshold.

Hedging recognition. With considerable Bitcoin options open interest, CME-traded futures averaging hundreds of thousands of contracts daily, and 24/7 futures now available, the infrastructure for risk management exists. The framework should recognize offsetting positions and hedging instruments with appropriate haircuts.

Custody carve-out at Basel level. Codify that pure agency custody (no principal risk) should remain off-balance-sheet and capitalized via operational risk, explicitly anchored to the accounting shift under SAB 122 and the CFTC's pilot program accepting crypto as margin collateral.[29]

Tier 3: Long-Term (Principles-Based Classification)

Create a principled regulatory category for non-issuer, globally traded, highly transparent digital commodities. The current framework classifies by technology (blockchain, tokenization) rather than by measurable risk dimensions (volatility, liquidity, transparency, counterparty structure). A principles-based approach would:

- **Classify by risk, not technology.** Assets with zero counterparty credit risk, deep derivatives markets, continuous price discovery, and cryptographic auditability should not automatically receive the framework's maximum penalty weight.

- **Calibrate capital to measurable dimensions.** Volatility (FRTB), liquidity (LCR/NSFR adjustments), operational complexity (OPE25), and concentration risk (graduated limits) each have dedicated Basel frameworks. Capital should reflect the output of these frameworks, not a blanket technology label.
- **Establish precedent for future digital assets.** A principles-based classification creates a durable framework that can accommodate future innovations without requiring a new bespoke standard for each technology.

Summary of Reform Recommendations

IMMEDIATE

Domestic Supervisory Action

Custody carve-out under operational risk framework. Supervised intermediation pathway with inventory limits and audited custody standards.

MEDIUM-TERM

Basel Engagement and Recalibration

Replace 1,250% default with FRTB-based capital. Graduated exposure limits. Hedging recognition. Custody carve-out at Basel level.

LONG-TERM

Principles-Based Classification

Create a "non-issuer digital commodity" category with capital determined by measurable risk dimensions rather than technology labels.

06

Conclusion

The Basel Committee's 1,250% risk weight for Bitcoin is a category error. It applies the framework's maximum capital penalty, a tool designed for unrateable securitization tranches with opaque, embedded risks, to a transparent, globally traded, zero-counterparty-risk asset whose risks are measurable and already addressable through existing Basel market-risk and operational-risk frameworks.

The regulatory environment has shifted decisively since the cryptoasset standard was finalized in December 2022. U.S. regulators have withdrawn restrictive joint statements, rescinded SAB 121, enacted the first federal stablecoin framework, and established clear supervisory pathways for bank engagement with digital assets. The Basel Committee itself has acknowledged the need for revision.

> **The question is no longer whether the standard needs revision, but who will lead it.** U.S. regulators should shape the Committee's targeted review rather than import a flawed standard.

The reforms proposed in this paper are not radical. They ask only that Bitcoin be evaluated by the same risk-sensitive principles that govern every other asset in the Basel framework: capital calibrated to measurable risk, through frameworks designed to handle each risk channel. The 1,250% weight is not conservatism—it is a category error that undermines the framework's own principles.

American financial leadership depends on the ability of U.S. institutions to participate in global markets. The 1,250% mistake narrows that ability at precisely the moment when demand for regulated Bitcoin services has never been greater.

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Conner Brown serves as Head of Strategy at the Bitcoin Policy Institute. He previously served as Counsel to Senator Cynthia Lummis (R-WY), where he led the Senator's Bitcoin and AI policy efforts, helping to educate lawmakers and their staff on the benefits of embracing new technologies.

While in the Senate, Brown was instrumental in leading historic developments in digital asset legislation, including the BITCOIN Act—landmark legislation to establish a U.S. Strategic Bitcoin Reserve—and the GENIUS Act, the first federal stablecoin framework signed into law.

Prior to his work in the Senate, Brown was an attorney at Cravath, Swaine & Moore and Sidley Austin. He holds a Juris Doctor from Stanford Law School, where he served as co-president of the Stanford Blockchain Club.

ABOUT THE BITCOIN POLICY INSTITUTE

The Bitcoin Policy Institute is a 501(c)(3) nonpartisan, nonprofit think tank based in Washington, DC. BPI researches the policy and societal implications of Bitcoin and emerging monetary networks, providing rigorous analysis to guide America through the rise of transformative technologies.

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Endnotes

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