Basel Committee
on Banking Supervision

Implementation of Basel standards

A report to G20 Leaders on implementation of the Basel III regulatory reforms

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Summary

This is the fifth report from the Basel Committee on Banking Supervision to update G20 Leaders on progress in implementing the Basel III regulatory reforms by the 27 Basel Committee member jurisdictions.[1] It summarises the outcomes from the Regulatory Consistency Assessment Programme (RCAP), which comprises three parts: (i) monitoring the progress in adopting Basel III standards; (ii) assessing the consistency of national or regional banking regulations with the Basel III standards; and (iii) analysing the prudential outcomes that are produced by those regulations.

Countries continue implementation efforts in accordance with the Committee's objectives. By end-2013, all Committee members had implemented Basel risk-based capital regulations. Efforts are now under way to adopt Basel III regulations for liquidity and leverage ratios as well as for global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs).[2] As of September 2014, 23 members had issued final or draft rules on their G-SIB or D-SIB framework, 26 had issued final or draft rules on the Liquidity Coverage Ratio (LCR), and 23 had issued final or draft rules on the leverage ratio. Non-Basel Committee jurisdictions also report substantial progress in the adoption of Basel III standards.

The Committee has analysed the implications of the Basel III standards for banks. Internationally active banks continue to make progress towards meeting the fully phased-in minimum Basel III capital requirements ahead of the 2019 deadline.[3] In the second half of 2013, the average Common Equity Tier 1 (CET1) capital ratio of large internationally active banks rose from 9.5% to approximately 10.2% of risk-weighted assets. In addition, the aggregated capital shortfall of those banks in the sample with capital ratios below the fully phased-in 2019 CET1 requirements continues to decrease: the CET1 shortfall was €15 billion in December 2013, down from €400 billion in 2011.[4] The weighted average Basel III leverage ratio for large internationally active banks was 4.4%, up from 3.7% in December 2012 (Graph 1). The weighted average LCR for internationally active banks was 119%, compared with 114% in June 2013 (Graph 2). While these numbers suggest that most banks already meet the fully phased-in Basel III minimum requirements, a number of banks still need to improve their capital and liquidity positions to meet the Basel III minimum requirements. Also, as new Basel III regulations come into effect, banks may need to make adjustments by, for example, increasing capital or modifying their funding strategy.

The Committee's programme to assess consistency of its members' Basel III implementation with the globally agreed standard remains on track. Since the last update, the Committee has concluded implementation reviews of capital regulations in Australia, Brazil, Canada and China. Reviews are under

1 The last update to the G20 was in August 2013. That and previous updates to the G20 are available at www.bis.org/bcbs/implementation/bprl1.htm.

2 The agreed start date for disclosure of the leverage ratio and the phase-in of the Liquidity Coverage Ratio is 1 January 2015. The phase-in of the G-SIB and D-SIB requirements is from 1 January 2016.

3 By 2019, the minimum Basel III requirements will include a 7% Common Equity Tier 1 ratio (minimum plus capital conservation buffer) and a 100% LCR. The minimum leverage ratio is 3%, subject to review by the Committee. Any final adjustments to the definition and calibration of the leverage ratio will be made by 2017.

4 Note that the shortfall is not based on a stress test, but derived from the Committee's quantitative impact study of banks' actual capital positions as reported by banks at the end of 2013. The study is based on a sample of over 200 banks, approximately half of which are large internationally active banks with Tier 1 capital in excess of €3 billion. The most recently published Basel III monitoring report is available at www.bis.org/publ/bcbs289.htm.

way to assess the consistency of capital regulations in the European Union, India, Mexico, South Africa and the United States. The EU and US assessments will be published by this year-end.

It is encouraging that, where possible, jurisdictions are actively rectifying areas of material inconsistency. As a result, regulations to adopt and implement Basel III standards are stronger than would otherwise have been the case absent the Committee's efforts at monitoring and assessing implementation. Member jurisdictions are also reporting that the various elements of the RCAP are fostering peer and industry dialogue on technical aspects of the Basel III framework, helping improve the quality of implementation and reducing the variability in national regulations.

The implementation findings are already feeding into the Committee's ongoing standard setting work. For example, the Committee is following up on the published RCAP studies of banks' calculations of risk-weighted assets (RWAs) in both the banking and trading books and is actively considering various strands of work to improve the comparability of outcomes. The separate report to the G20 Leaders entitled *Reducing excessive variability in banks' regulatory capital ratios* provides an overview of follow-up actions, including the introduction of capital floors and regular monitoring of RWA variability through Hypothetical Portfolio Exercises (HPEs).

Progress report on Basel III implementation

1. Introduction

The Committee's mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.[5] The Committee's work agenda has thus revolved around four key themes: (i) completing the post-crisis reform agenda; (ii) focusing on implementation efforts; (iii) reviewing the balance between simplicity, comparability and risk sensitivity of the framework; and (iv) enhancing supervisory effectiveness. As the design of the core elements of the Committee's post-crisis policy response approaches completion, the Committee's implementation agenda continues to develop around three workstreams: (i) monitoring adoption of Basel III standards; (ii) assessing consistency and completeness of members' Basel III regulations vis-à-vis the globally agreed Basel standards; and (iii) analysing regulatory outcomes. These provide the Committee with a strong basis to monitor and evaluate the effects of Basel III reforms as they are being implemented.

2. Adoption of Basel III standards

Monitoring members' adoption of the Basel standards has provided transparency on the timeliness of implementation, and complements the Committee's quantitative impact study (QIS) work on banks' readiness to meet the Basel framework's minimum standards. Feedback from this work suggests that the monitoring efforts have increased the peer pressure to adopt the new standards on a timely basis and ensure their consistency with Basel III (Table 1).

By the end of 2013, all member jurisdictions had issued final rules for the risk-based capital standards (in a few cases, the relevant standards and guidelines underpinning the final rules are still being completed). In addition, members have begun to move towards introducing regulations for the liquidity and leverage ratios, as well as the requirements that apply to firms designated as G-SIBs and D-SIBs.

The quantitative monitoring of Basel III regulations shows that banks continue to make steady progress towards meeting the new Basel standards for capital, liquidity and the leverage ratio. Most banks already comply with the minimum Basel III ratios (Graphs 1 and 2). Of the 29 G-SIBs included in the year-end 2013 Basel III monitoring exercise, 21 G-SIBs had already reached the CET1 target level plus the surcharge. For the leverage ratio, 80% of the banks in the sample would meet a Basel Tier 1 leverage ratio level of 3%. Regarding the LCR, 72% of the banks already meet or exceed the final LCR minimum requirement of 100%, while 91% have LCRs that are at or above the initial 60% minimum requirement, which becomes effective from 2015.[6] Regarding the Net Stable Funding Ratio (NSFR), the average NSFR for large, internationally active banks was 111% as of December 2013. In total, 78% of the banks

5 See www.bis.org/bcbs/charter.htm.

6 The LCR will be introduced on 1 January 2015, but the minimum requirement will begin at 60%, rising in equal annual steps of 10 percentage points to reach 100% on 1 January 2019. This graduated approach is designed to ensure that the LCR can be introduced without disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity.

reported an NSFR that met or exceeded 100%. These data are based on the January 2014 version of the NSFR, rather than the final version which is expected to be published by the end of the year. While banks have made substantial progress, a number of banks still face shortfalls and further build-up of capital and liquidity buffers remains critical.

Adoption status of Basel III

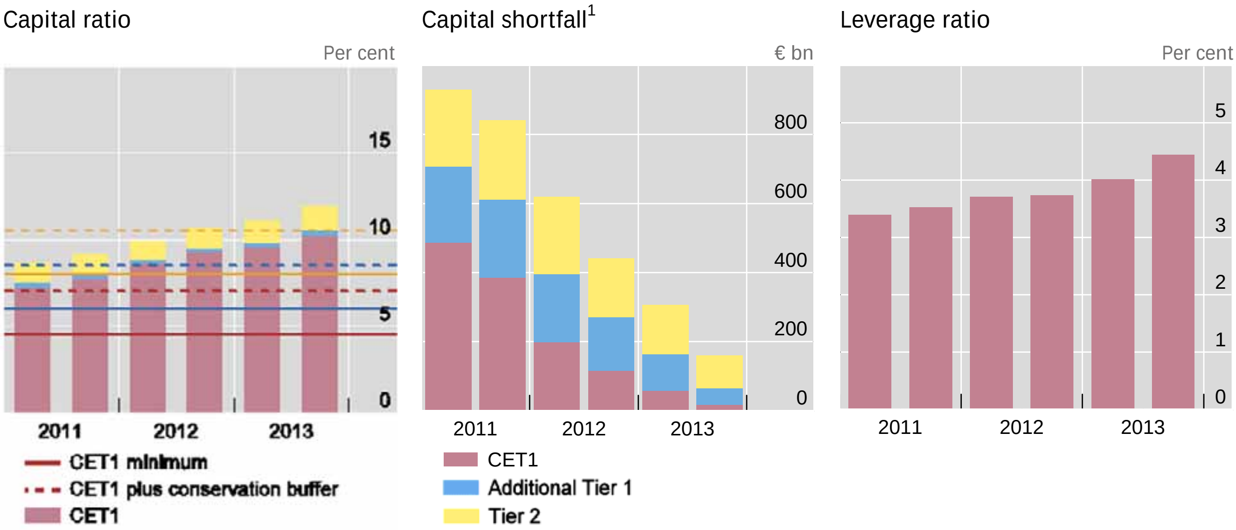
Number of Basel Committee member jurisdictions — Table 1

		October 2012	October 2013	October 2014
Risk-based capital standard	Final rules in force	0	12	27
	Final rules issued (not in force)	7	14	--
	Draft rules issued	18	1	--
LCR	Final rules in force	--	1	3
	Final rules issued (not in force)	--	10	16
	Draft rules issued	--	4	7
Leverage ratio (disclosure standard)	Final rules in force	--	--	4
	Final rules issued (not in force)	--	--	11
	Draft rules issued	--	--	8
G-SIB and D-SIB standards	Final rules in force	--	1	4
	Final rules issued (not in force)	--	10	8
	Draft rules issued	--	0	6

Source: Basel Committee on Banking Supervision, *Progress report on adoption of the Basel regulatory framework*, October 2014, available at www.bis.org/publ/bcbs290.htm.

Average Basel III capital ratios, capital shortfall and leverage ratios

Sample of large, internationally active banks — Graph 1



[1] The height of each bar shows the aggregated capital shortfall considering requirements for each tier (ie CET1, Tier 1 and Total) of capital.

Source: Basel Committee on Banking Supervision, *Basel III Monitoring Report*, September 2014.

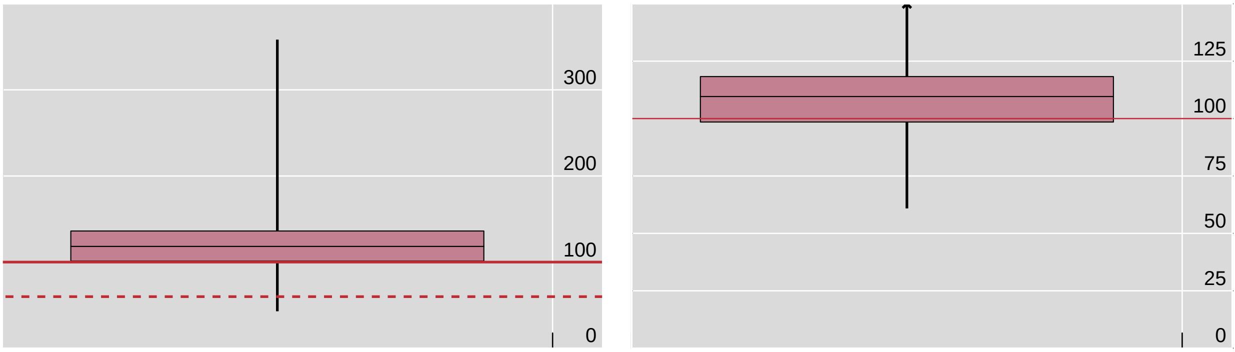
Basel III liquidity ratios[1]

In per cent

Graph 2

Liquidity Coverage Ratio[2]

Net Stable Funding Ratio[3]



Sample of internationally active banks with Tier 1 capital in excess of €3 billion.

[1] The median value is represented by a horizontal line, with 50% of the values falling in the range shown by the box. The upper and lower end points of the black vertical lines show the range of the entire sample.

[2] The sample is capped at 400%, meaning that all banks with an LCR above 400% were set to 400%. The red horizontal lines represent the 60% minimum (2015, dashed line) and the 100% minimum (2019, solid line).

[3] Banks with an NSFR of above 150% are included in the calculation but are not shown in the graph.

Source: Basel Committee on Banking Supervision, *Basel III Monitoring Report*, September 2014.

Non-Basel Committee, non-EU jurisdictions

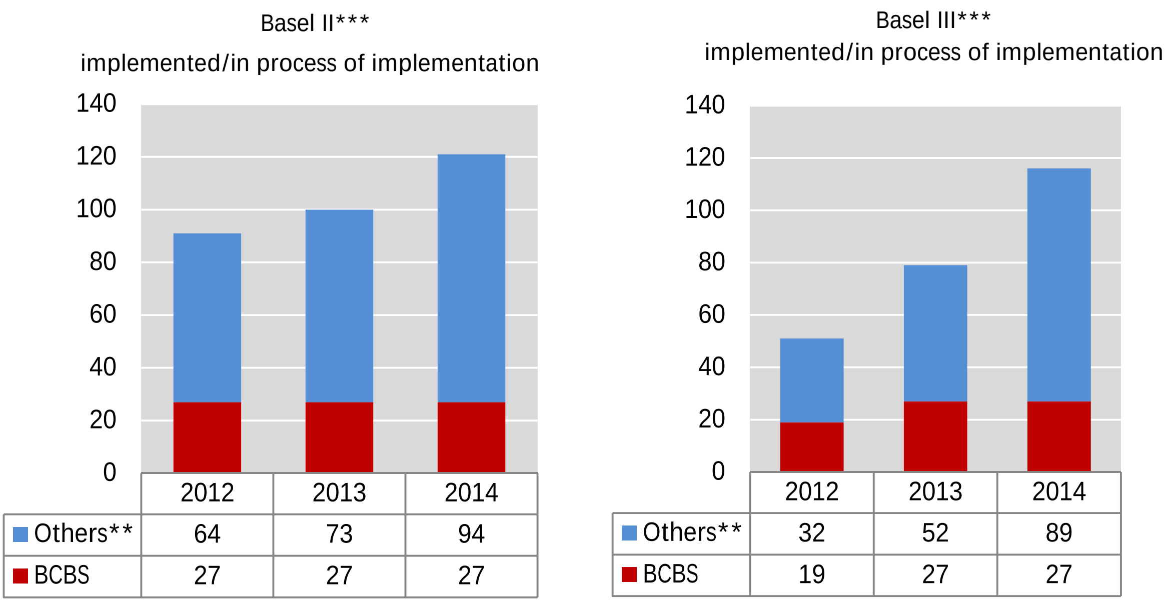
Several non-Basel Committee member jurisdictions are increasingly adopting and implementing Basel II, Basel 2.5 and Basel III standards. In July 2014, the Financial Stability Institute (FSI) issued its annual progress report on Basel adoption in jurisdictions that are neither members of the Basel Committee nor members of the European Union.[7] The report updates the FSI's previous progress report and provides results as of end-June 2014.[8]

The results are based on information available from 109 jurisdictions and there has been significant progress in the implementation efforts. Among these jurisdictions, 94 have either implemented Basel II or are in the process of implementation, and 89 have implemented Basel III or are in the process of implementation.

[7] *FSI Survey – Basel II, 2.5 and III Implementation*, July 2014, available at www.bis.org/fsi/fsipapers.htm.

[8] For the previous FSI progress report, see *FSI Survey – Basel II, 2.5 and III Implementation*, July 2013, available at www.bis.org/fsi/fsipapers.htm.

Surveys on Basel II and III implementation* Graph 3



* Sources: BCBS; FSI.

** Including non-Basel Committee EU jurisdictions.

*** A jurisdiction that has implemented at least one subsection of Basel III is deemed to be in the process of implementation.

3. Consistency of reforms

Thus far, assessments of seven jurisdictions (Australia, Brazil, Canada, China, Japan, Singapore and Switzerland) have been conducted to assess the consistency of their *final* risk-based capital rules with the globally agreed standard. In each case, these jurisdictions were found to be overall "compliant" with the Basel minimum standards. Annex 1 provides a summary of the assessments on Australia, Brazil, Canada and China. Annex 2 provides an overview of upcoming jurisdictional assessments.

Overview of jurisdictional assessments Table 2

Status	Jurisdiction	Publication date of assessment	Number of regulatory changes made or committed to be made	Overall assessment grade
Completed assessments	Japan	Oct 2012	5	Compliant
	Singapore	Mar 2013	15	Compliant
	Switzerland	Jun 2013	22	Compliant
	China	Sep 2013	90	Compliant
	Brazil	Dec 2013	42	Compliant
	Australia	Mar 2014	14	Compliant
	Canada	Jun 2014	54	Compliant

In a few areas of the Basel risk-based capital framework, similar findings have been observed across jurisdictions. However, on the whole, most material deviations appear to be idiosyncratic and driven by specific local circumstances. Also, a deeper cross-check of these findings suggests that deviations from the Basel framework typically represent deliberate choices made by the jurisdictions owing to various factors, including legal requirements and local factors.

The assessments also note areas where jurisdictions are *super-equivalent* compared with the Basel minimum standards, ie areas where the member jurisdiction has adopted stronger and more conservative requirements. Super-equivalences account for roughly one-third of the total number of differences identified by the RCAP reviews, ie they are less common than shortfalls from the minimum. So far, no areas have been identified to be consistently super-equivalent, which suggests there are no Basel capital standards that generally lack conservatism or are calibrated too low in the collective judgement of the implementing authorities.

Besides the identification of deviations and super-equivalences, the RCAP process has uncovered a few areas that are subject to differences in interpretation. The Committee has initiated a process to examine these and provide clarifications.

The analysis of prudential outcomes has revealed that there are material practice-based differences between banks' risk-weighting of assets. This has a strong bearing on the implementation goals of improving the consistency and reliability of prudential outcomes. It has implications for the banks that have implemented advanced approaches and for banks and member jurisdictions seeking to move towards the advanced approaches.[9] Supervisors have discussed the results of the studies with their domestic banks and provided detailed feedback to banks from the risk-weighted asset benchmarking studies. This assessment and feedback process promotes greater consistency in the outcomes of the implementation of international standards. See the separate report to G20 Leaders for the Brisbane Summit entitled *Reducing excessive variability in banks' regulatory capital ratios*.

4. Implementation work plan

The Basel Committee has largely completed its post-crisis reform agenda, including the capital frameworks for G-SIBs and D-SIBs and the final standards for the LCR, NSFR and leverage ratio (see Annex 3 for an overview of key elements of the Basel standards). In 2014, the Committee has finalised additional regulatory standards and consulted on other policy proposals as part of its completion of post-crisis regulatory reforms.[10] Finalising these standards and guidance are an important step for the Committee in completing its crisis-related reforms, which, once implemented, will establish a stronger and more resilient banking system.

[9] For example, some members have indicated that their move towards adopting the advanced approaches (eg the Internal Ratings-Based approach) is conditional on the Basel Committee's anticipated guidance on reducing excessive risk-weighted asset variations.

[10] These include: capital requirements for bank exposures to central counterparties; a supervisory framework for measuring and controlling large exposures; the leverage ratio disclosure requirements; liquidity coverage ratio disclosure standards; the net stable funding ratio; and restricted-use committed liquidity facilities. The Committee has also issued guidance for supervisors on market-based indicators of liquidity and has proposed revisions to Pillar 3 disclosure requirements.

With regard to ongoing implementation efforts, the Committee will continue to emphasise consistency of practices and analysis of outcomes to promote financial stability and a level playing field. The key elements of the Committee's implementation strategy for 2014–2016 will be to:

(i) strengthen monitoring activities while continuing the semiannual monitoring of banks' progress in meeting the Basel III requirements;

(ii) complete the first round of jurisdictional assessments of Basel III capital standards (by 2016);

(iii) begin assessment of liquidity (LCR) and G-SIB and D-SIB standards from 2015;

(iv) begin annual post assessment follow-up procedures; and

(v) review the Committee's implementation mandate and strengthen the RCAP process as new Basel III standards come on stream.

Annex 1

Consistency of capital regulations in Australia, Brazil, Canada and China

The following jurisdictions have been assessed since the last update to G20 Leaders in August 2013.

Australia

Australia's implementation of the Basel capital framework was found to be closely aligned with the Basel III standards: 12 out of 14 assessed components were found to be "compliant". The two components that were graded "largely compliant" were the "definition of capital" and the "Internal Ratings-Based approach for credit risk", where some differences exist vis-à-vis the Basel framework. The overall framework of Australia's capital regulation was graded "compliant".

The assessment team noted that some aspects of Australia's capital regulations, such as those related to the definition and measurement of capital, are more rigorous than required under the Basel framework. The Australian Prudential Regulation Authority (APRA) has also implemented some aspects of the Basel III framework ahead of the internationally agreed timeline and has also decided not to opt for the extended transition period for Basel framework implementation.

Brazil

Brazil's implementation of the Basel capital framework was found to be closely aligned with the Basel III global standards: 11 out of 14 assessed components were found to be "compliant". The three components that were graded "largely compliant" were the Standardised Approach for credit risk, minimum requirements for capital buffers and Pillar 2 (the Supervisory Review Process). Although some differences with the Basel framework were found in these areas, none of the findings were judged to be material at this point. Therefore, the overall framework of Brazil's capital regulation was graded "compliant".

During the assessment, new regulatory documents were issued to rectify a number of provisions that were initially identified as deviations from the Basel framework. These additional regulatory documents considerably improved the level of compliance with the Basel standards, and demonstrate Brazil's strong commitment to implement the global regulatory reforms.

Canada

The implementation by Canada of the Basel capital framework was found to be closely aligned with the Basel III standards: 13 out of 14 assessed components were assessed to be "compliant", while one component, the "definition of capital", was assessed as "largely compliant" due to some uncertainty about the accounting classification of non-viability contingent capital preferred shares issued by banks despite the fact that those instruments are clearly equity instruments in substance. The overall framework of Canada's capital regulation was graded "compliant".

The final assessment recognised the effort made by the Office of the Superintendent of Financial Institutions (OSFI) to strengthen and align its capital rules with the Basel III framework in the course of the assessment. These amendments were made public and implemented with effect from 25 April 2014. The Assessment Team also noted the more rigorous implementation of the Basel framework in several aspects, with the major element being the bringing-forward of the 2019 Basel capital ratio requirements to 2013 in the target capital ratios applied to all banks. In addition, OSFI continues to apply the 90% transitional floor to Canadian banks using the Basel advanced approaches.

China

China's implementation of the Basel capital framework was found to be closely aligned with the Basel III global standards: 12 out of 14 assessed components were found to be "compliant". The two components that were graded "largely compliant" pertain to the Standardised Approach for credit risk and Pillar 3 (market discipline). Although some differences with the Basel framework were found in these areas, none of the findings was judged to be material at this point. Therefore, the overall framework of China's capital regulation was graded "compliant".

During the assessment, the China Banking Regulatory Commission (CBRC) issued four new regulatory documents that rectified a number of provisions that were initially identified as deviations from the Basel framework. These additional regulatory documents considerably improved the level of compliance with the Basel standards. The CBRC's response to the report expresses the strong commitment of the Chinese authorities to implement the global regulatory reforms.

Annex 2

Schedule of completed and upcoming RCAP assessments

RCAP: assessment of implementation of Basel III capital regulations (2012–2016)* Table 3

Basel Committee member jurisdiction	Assessment status	(Tentative) publication date of assessment report
European Union	Preliminary assessment	Published October 2012
United States	Preliminary assessment	Published October 2012
Japan	Completed	Published October 2012
Singapore	Completed	Published March 2013
Switzerland	Completed	Published June 2013
China	Completed	Published September 2013
Brazil	Completed	Published December 2013
Australia	Completed	Published March 2014
Canada	Completed	Published June 2014
European Union	Technical work completed	December 2014
United States	Technical work completed	December 2014
Hong Kong SAR	Under way	March 2015
Mexico	Under way	March 2015
India	Under way	June 2015
South Africa	Under way	June 2015
Saudi Arabia**	Planned	September 2015
Russia**	Planned	December 2015
Argentina**	Planned	March 2016
Turkey**	Planned	March 2016
Korea**	Planned	June 2016
Indonesia**	Planned	September 2016

* Assessments of implementation of Basel III standards relating to liquidity, leverage and G-SIBs, and follow-up assessments on capital regulations, will start from 2015.

** The assessment work will be initiated or undertaken during 2015. Ahead of that, these BCBS members will undertake self-reviews based on the RCAP assessment questionnaire.

Annex 3

Basel III policy reforms and implementation

The Basel III framework builds on and enhances the regulatory framework set out under Basel II and Basel 2.5.[11]

- *Basel II*: Basel II, which improved the measurement of credit risk and included capture of operational risk, was released in 2004 and was due to be implemented from year-end 2006. The framework consists of three pillars: Pillar 1 contains the minimum capital requirements; Pillar 2 sets out the supervisory review process; and Pillar 3 corresponds to market discipline.
- *Basel 2.5*: Basel 2.5, agreed in July 2009, enhanced the measurements of risks related to securitisation and trading book exposures. Basel 2.5 was due to be implemented no later than 31 December 2011.
- *Basel III*: In December 2010, the Committee released Basel III, which set higher levels for capital requirements and introduced a new global liquidity framework. The Committee agreed to implement Basel III from 1 January 2013, subject to transitional and phase-in arrangements.[12]
- *G-SIB framework*: In July 2013, the Committee published the assessment methodology and additional loss absorbency requirement for global systemically important banks (G-SIBs). The requirements will be introduced on 1 January 2016 and become fully effective on 1 January 2019. To enable their timely implementation, national jurisdictions agreed to implement by 1 January 2014 the official regulations/legislations that establish the reporting and disclosure requirements.
- *D-SIB framework*: In October 2012, the Basel Committee issued a set of principles on the assessment methodology and the higher loss absorbency requirement for domestic systemically important banks (D-SIBs). Given that the D-SIB framework complements the G-SIB framework, the Committee believes it would be appropriate if banks identified as D-SIBs by their national authorities are required by those authorities to comply with the principles in line with the phase-in arrangements for the G-SIB framework, ie from January 2016.
- *Liquidity Coverage Ratio*: In January 2013, the Basel Committee issued the revised Liquidity Coverage Ratio (LCR). The LCR underpins the short-term resilience of a bank's liquidity risk

[11] These standards are available at www.bis.org/bcbs/publications.htm.

[12] In September 2013, the Committee issued the final framework for margin requirements for non-centrally cleared derivatives, which will be phased in over a four-year period, beginning in December 2015 with the largest, most active and most systemically important derivatives market participants. In December 2013, the Committee issued the final standard for the treatment of banks' investments in the equity of funds that are held in the banking book, which will take effect from 1 January 2017. In April 2014, the Committee issued the final standard for the capital treatment of bank exposures to central counterparties, which will come into effect on 1 January 2017. Also in April 2014, the Committee issued the final standard that sets out a supervisory framework for measuring and controlling large exposures, which will take effect from 1 January 2019.

profile. The LCR will be introduced on 1 January 2015 and will be subject to a transitional arrangement before reaching full implementation on 1 January 2019.[13]

- *Leverage ratio*: In January 2014, the Basel Committee issued the Basel III leverage ratio framework and disclosure requirements following endorsement by its governing body, the Group of Central Bank Governors and Heads of Supervision (GHOS). Implementation of the leverage ratio requirements has begun with bank-level reporting to national supervisors of the leverage ratio and its components, and will proceed with public disclosure starting on 1 January 2015.
- *Net Stable Funding Ratio*: In October 2014, the Basel Committee issued the final standard of the Net Stable Funding Ratio (NSFR). In line with the timeline specified in the 2010 publication of the liquidity risk framework, the NSFR will become a minimum standard by 1 January 2018.

The BCBS working groups employ various modes of monitoring implementation, including self-assessment survey templates, case study presentations and outreach activities. Final reports, which include observations and recommendations from the BCBS working group, are produced and presented to the Committee on an ongoing basis. Some of the planned monitoring exercises to be conducted by the BCBS working group are summarised in Table 4.

Basel III related implementation plans

Table 4

BCBS standards/principles	Mode of follow-up /implementation	Planned output
Principles for effective supervisory colleges	Self-assessment survey and case studies	1. Report on supervisory colleges and crisis management groups monitoring table (annual, May-2015) 2. Case study presentations and a summary report (ongoing)
Margin requirements for non-centrally cleared derivatives	Survey, presentations and review	1. Progress report on implementation of margining implementation (national and industry, by end-2014) 2. Report on the review of the relation and consistency of margin requirements with other regulatory initiatives (by end-2014) 3. Report on the impact of margin requirements and on the use and effects of the exemptions to margin requirements (by 2015)
Principles for effective risk data aggregation and risk reporting	Self-assessment survey	1. Analysis and report on banks' self-assessments of compliance (Q4 2014) 2. Summary of implementation steps taken by supervisors (Q4 2014)
Framework for dealing with domestic systemically important banks	Survey	1. Findings from SIB framework implementations within BCBS jurisdictions (ongoing, 2014–15). This will also inform the RCAP survey of national D-SIB frameworks, starting in 2015
Operating the countercyclical capital buffer	Survey	1. Review on national implementation of the countercyclical capital buffer, including further guidance if necessary (targeted for end-2014) 2. Analysis of the use of other macroprudential tools (ongoing, 2014–15)

13 In January 2014, the Committee issued final requirements for banks' LCR-related disclosures. Banks will be required to comply with them from the date of the first reporting period after 1 January 2015.