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 sixth 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 Committee's 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.

Implementation of Basel III capital and liquidity standards has generally been timely. All Committee members had implemented Basel risk-based capital regulations by end-2013, and as of September 2015 all but two members had published final regulations to implement the Liquidity Coverage Ratio (LCR) requirements, the phase-in of which began in January 2015. Efforts are continuing to adopt Basel III regulations for the leverage ratio, the systemically important bank (SIB) frameworks and the Net Stable Funding Ratio (NSFR). As of September 2015, 23 Committee members had issued final or draft rules for the leverage ratio, 25 had issued final or draft rules for their global or domestic SIB (G-SIB or D-SIB) framework and four had issued final or draft rules for the NSFR. Non-Basel Committee jurisdictions also report substantial progress in the adoption of Basel III standards.

The Committee has established a rigorous reporting process to periodically review the implications of the Basel III capital and liquidity standards for banks. These studies are conducted and published twice a year. Based on the most recent study, the Committee believes that banks remain on track to meet the Basel III standards.[2]

The Committee continues to review the extent to which domestic regulations are aligned with the minimum Basel requirements agreed by the Committee and help identify material gaps in the regulations. Its jurisdictional assessment programme has shown that implementation of Basel III capital and liquidity standards at the domestic level has generally been consistent with the globally agreed Basel standard. Since the 2014 update, the Committee has concluded reviews of capital regulations in the European Union, Hong Kong SAR, India, Mexico, Saudi Arabia, South Africa and the United States. In addition, the Committee has reviewed the implementation of the LCR in Hong Kong SAR, India, Mexico, Saudi Arabia and South Africa. Reviews are under way to assess the consistency of capital and LCR regulations in Argentina, Indonesia, Korea, Russia and Turkey and of the SIB frameworks in the member jurisdictions that are home to G-SIBs (China, the European Union, Japan, Switzerland and the United States). 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 to monitor and assess implementation. During 2015, the Committee has published reports that detailed actions taken by Brazil, China, Japan, Singapore and Switzerland since their RCAP assessments to address findings in those assessments.

The findings from implementation assessments contribute to the Committee's ongoing standard-setting work. For example, the Committee has conducted RCAP studies of how banks calculate risk-weighted assets (RWA) in both the banking book and the trading book. The results of these studies were factored into a strategic review of the risk-weighted framework conducted by the Committee. The

[1] The last update to G20 Leaders was in November 2014. That and previous updates to the G20 are available at www.bis.org/bcbs/impl_moni_g20.htm.

[2] See the *Basel III Monitoring Report*, September 2015, available at www.bis.org/bcbs/publ/d334.htm.

separate report to G20 Leaders entitled *Finalising post-crisis reforms: an update* provides an overview of this work.

It has been three years since the Committee launched its RCAP. It is currently reviewing the programme and considering how the effectiveness of its implementation work can be further enhanced. For example, the Committee has revised its monitoring template and report to take into account new or revised standards.[3] It has also commissioned a study to review the progress of the RCAP and the strategic direction of the Committee's implementation mandate.

[3] This revised format took effect from October 2015. See *Ninth progress report on adoption of the Basel regulatory framework*, available at www.bis.org/bcbs/publ/d338.pdf.

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.[4] Its 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.

This report focuses on the three strands of the Committee's implementation agenda: (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. This helps the Committee to monitor and evaluate the effects of Basel III reforms as they are being implemented.

2. Adoption of Basel III standards

Member jurisdictions have been reporting their implementation of Basel III standards since 2011.[5] This has provided transparency on the timeliness of implementation and has complemented the Committee's quantitative impact study (QIS) work on banks' readiness to meet the Basel framework's minimum standards. By the end of 2013, all member jurisdictions had issued final rules for the risk-based capital standards. Most members have now issued final rules for the LCR and the leverage ratio disclosure requirements. Progress continues in the implementation of the SIB frameworks and other aspects of the Basel III standards yet to come into force.

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

5 The Committee has regularly monitored the adoption status of the risk-based capital requirements since October 2011 and the LCR, SIB frameworks and leverage ratio since October 2015.

Adoption status of Basel III

Number of Basel Committee member jurisdictions[1] Table 1

		October 2012	October 2013	October 2014	October 2015
Risk-based capital standard	Final rules in force	0	12	27	27
	Final rules issued (not in force)	7	14	--	--
	Draft rules issued	18	1	--	--
LCR	Final rules in force	--	1	3	25
	Final rules issued (not in force)	--	10	16	--
	Draft rules issued	--	4	7	2
Leverage ratio disclosure standard	Final rules in force	--	--	4	22
	Final rules issued (not in force)	--	--	11	1
	Draft rules issued	--	--	8	3
G-SIB framework[2]	Final rules in force	--	--	--	8
	Final rules issued (not in force)	--	--	--	12
	Draft rules issued	--	--	--	1
D-SIB framework[2]	Final rules in force	--	--	--	2
	Final rules issued (not in force)	--	--	--	13
	Draft rules issued	--	--	--	5

[1] In this table, the nine member jurisdictions that are also Member States of the European Union are counted as separate jurisdictions.

[2] Implementation of G-SIB and D-SIB frameworks was not reported separately in 2013 and 2014.

Source: Basel Committee on Banking Supervision, *Ninth progress report on adoption of the Basel regulatory framework*, October 2015, available at www.bis.org/bcbs/publ/d338.htm.

The quantitative monitoring of Basel III regulations shows that banks are on track to meet the Basel standards. Internationally active banks continue to make progress towards meeting the fully phased-in minimum Basel III capital requirements ahead of the 2019 deadline.[6] Assuming full phasing-in of the Basel III minimum requirements as of 31 December, including changes to the definition of capital and RWA, all large internationally active banks (defined as those that have Tier 1 capital of more than €3 billion) would meet the Common Equity Tier 1 (CET1) minimum capital requirement of 4.5% and the CET1 target of 7.0% (ie including the capital conservation buffer); this target also includes the G-SIB surcharge according to the list published by the Financial Stability Board in November 2014 where applicable.[7] The average CET1 capital ratio of these banks rose from 10.2% to 11.1% of RWA during 2014. Under the same assumptions, there is no capital shortfall for the other 121 banks in the Committee's sample for the CET1 minimum of 4.5%. For a CET1 target level of 7.0%, the aggregated

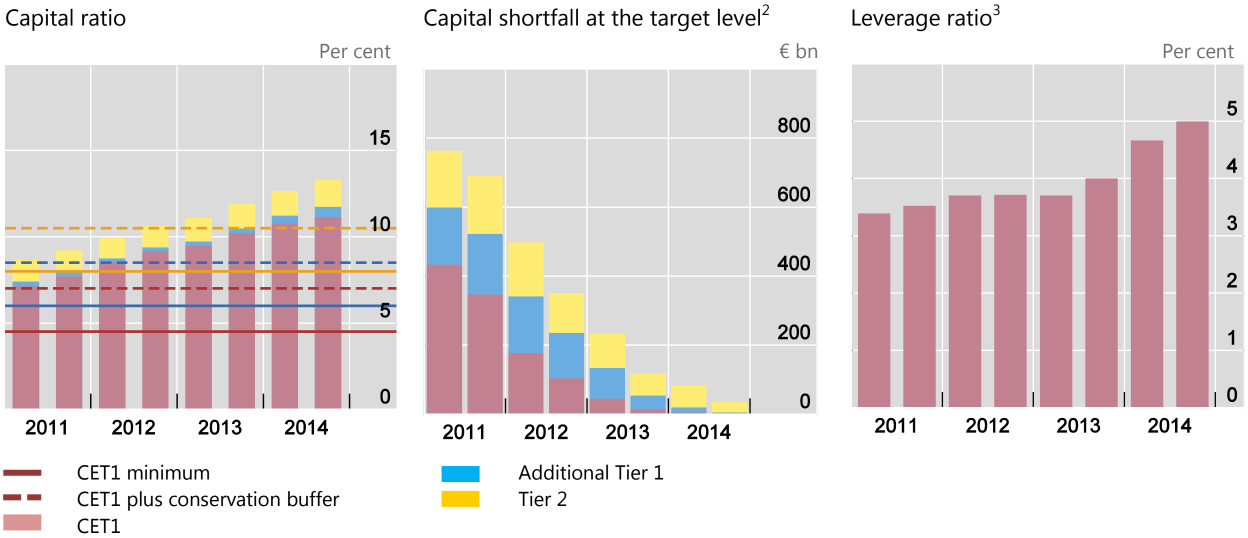
[6] By 2019, the Basel III requirements will include a 7% Common Equity Tier 1 ratio (minimum plus capital conservation buffer), a 100% LCR and a 100% NSFR. The minimum leverage ratio is 3%, subject to review by the Committee. Any final adjustments to the definition and calibration of the leverage ratio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

[7] See Financial Stability Board, *2014 update of list of global systemically important banks (G-SIBs)*, 6 November 2014, available at www.financialstabilityboard.org/wp-content/uploads/r_141106b.pdf.

capital shortfall narrowed from €9.4 billion to €1.5 billion during 2014. This aggregated capital shortfall of all banks in the sample with capital ratios below the fully phased-in 2019 CET1 requirements is a substantial reduction since 2011, when the shortfall was estimated at €400 billion.[8] The weighted average Basel III leverage ratio for large internationally active banks was 5.6%, up from 4.4% in December 2013 (Graph 1). The weighted average LCR for large internationally active banks was 125%, compared with 119% in December 2013 (Graph 2).

Average Basel III capital ratios, capital shortfall and leverage ratios

Sample of large internationally active banks[1] Graph 1



[1] Large internationally active banks are those that have Tier 1 capital of more than €3 billion and are internationally active. One hundred large internationally active banks took part in the Committee's monitoring exercise during 2015.

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

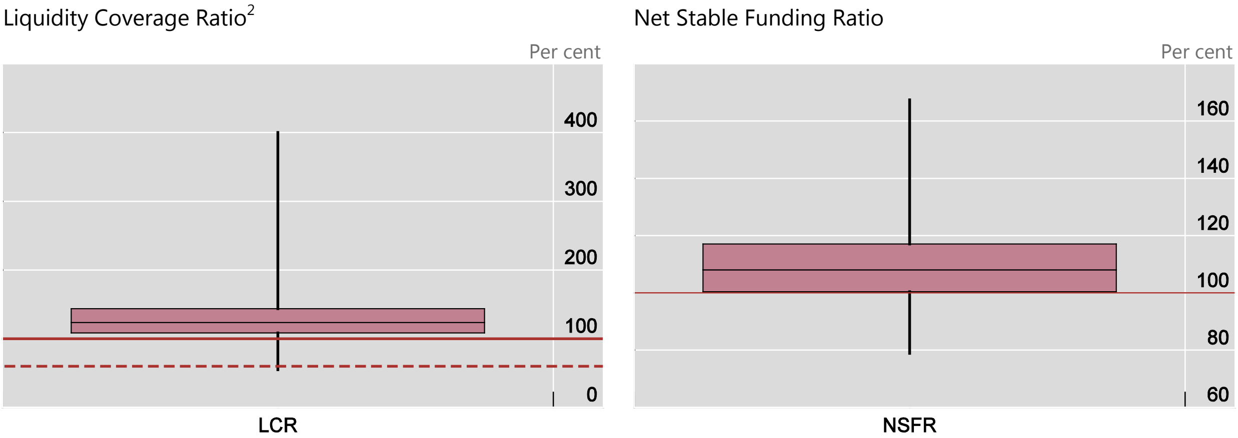
[3] The data points for H1 2013 use an approximation for the final definition of the Basel III leverage ratio exposure where gross instead of adjusted gross securities financing transaction values are used.

Source: Basel Committee on Banking Supervision, *Basel III Monitoring Report*, September 2015, available at www.bis.org/bcbs/publ/d334.htm.

8 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 2014. 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 http://www.bis.org/bcbs/publ/d334.htm.

Basel III liquidity ratios

Sample of large internationally active banks[1] Graph 2



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 thin vertical lines show the range of the entire sample.

[1] Large internationally active banks are those that have Tier 1 capital of more than €3 billion and are internationally active. One hundred large internationally active banks took part in the Committee's monitoring exercise during 2015.

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

Source: Basel Committee on Banking Supervision, *Basel III Monitoring Report*, September 2015, available at www.bis.org/bcbs/publ/d334.htm.

Non-Basel Committee jurisdictions

A large number of non-Basel Committee member jurisdictions have adopted or are in the process of adopting the Basel III standards. In July 2015, the Financial Stability Institute (FSI) updated its annual progress report on the implementation of the Basel framework in jurisdictions that are neither members of the Basel Committee nor members of the European Union. The report provides information on 98 non-Basel Committee jurisdictions as of end-June 2015.[9]

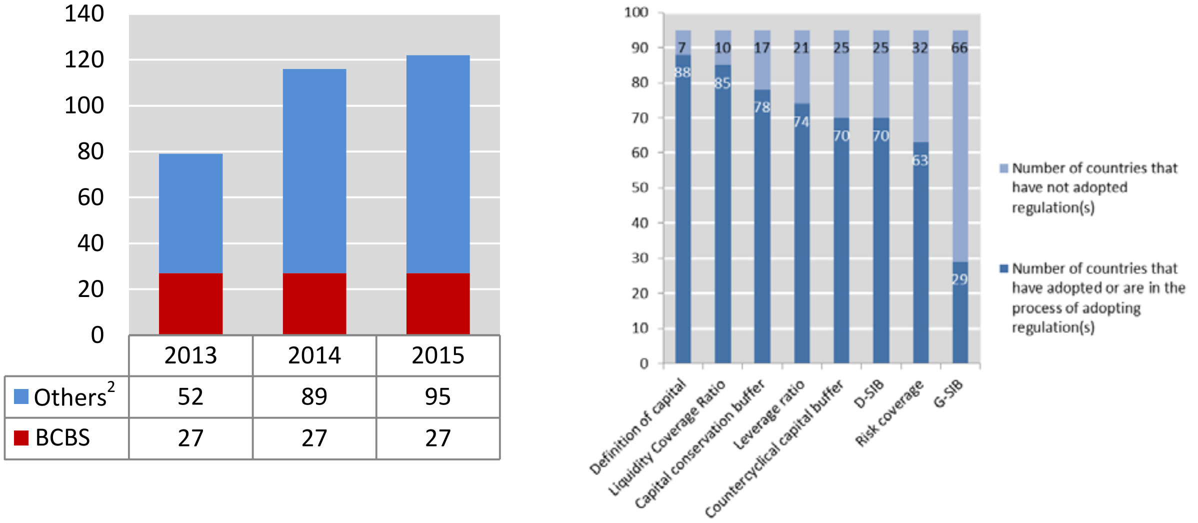
The graphs below reflect the latest FSI survey results from the above 98 jurisdictions as well as an additional 19 non-Basel Committee European Union jurisdictions. This analysis shows that 95 non-Basel Committee jurisdictions have adopted or are in the process of adopting Basel III. A more granular assessment of the Basel III implementation process in these jurisdictions shows that most of them are prioritising core aspects of the post-crisis global regulatory framework, such as the enhancements to the definition of regulatory capital and the new global standards on liquidity.

[9] *FSI Survey – Basel II, 2.5 and III Implementation*, July 2015, available at www.bis.org/fsi/fsiop2015.htm.

Basel III implementation in non-Basel Committee jurisdictions	Graph 3

Basel III[1] — Rules implemented / in process of implementation

Basel III[2] — Rules implemented / in process of implementation



[1] A jurisdiction that has implemented at least one subsection of Basel III is deemed to be in the process of implementation.
[2] Including non-Basel Committee EU jurisdictions.
Sources: Basel Committee on Banking Supervision; Financial Stability Institute.

3. Consistency of reforms

The Committee has published assessment reports on the consistency of the final risk-based capital rules issued by 22 of its members.

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
	European Union	Dec 2014	0	Materially non-compliant
	United States	Dec 2014	3	Largely compliant
	Hong Kong SAR	Mar 2015	17	Compliant
	Mexico	Mar 2015	55	Compliant
	India	Jun 2015	44	Compliant
	South Africa	Jun 2015	39	Compliant
	Saudi Arabia	Sep 2015	93	Compliant

The Committee is now also assessing its members' implementation of the LCR standard. The assessments of five jurisdictions have been published so far during 2015. The Committee plans to assess the remaining jurisdictions during 2016 and 2017, alongside reviews of the risk-based capital standard where possible.

Overview of jurisdictional assessments of LCR implementation — Table 3

Status	Jurisdiction	Publication date of assessment	Number of regulatory changes made or committed to be made	Overall assessment grade
Completed assessments	Hong Kong SAR	Mar 2015	0	Compliant
	Mexico	Mar 2015	9	Compliant
	India	Jun 2015	21	Largely compliant
	South Africa	Jun 2015	2	Compliant
	Saudi Arabia	Sep 2015	12	Largely compliant

Annex 1 provides a summary of the assessments of implementation in the European Union, Hong Kong SAR, India, Mexico, Saudi Arabia, South Africa and the United States. Annex 2 provides an update of upcoming jurisdictional assessments.

4. Implementation work plan

The Committee will continue to promote consistency of implementation practices across its member jurisdictions. This will include analysis of outcomes in order to support financial stability and a level playing field. The key elements of the Committee's implementation strategy for 2016–17 will be to:

- continue monitoring the adoption of Basel III standards;
- complete the remaining jurisdictional assessment reports on the consistency of implementation of the risk-based capital requirements, continue the planned jurisdictional assessments of LCR implementation and conduct annual post-assessment follow-up procedures;
- assess the implementation of SIB frameworks in member jurisdictions; and
- review the Committee's implementation mandate and strengthen the RCAP process where appropriate, taking into account the findings and recommendations of a study commissioned by the Committee on this topic. The Committee's review will include consideration of how to assess the implementation of new or revised Basel standards.

An accompanying report to G20 Leaders describes the progress made by the Committee in strengthening the international regulatory framework for banks and the Committee's plans to finalise the remaining core elements of the global bank regulatory reform agenda by end-2016.[10]

[10] Basel Committee, *Finalising post-crisis reforms: an update*, November 2015.

Annex 1: Consistency of capital regulations in the European Union, Hong Kong SAR, India, Mexico, Saudi Arabia, South Africa and the United States

The following jurisdictions have been assessed since the last update to G20 Leaders in November 2014. Implementation of the LCR was assessed alongside implementation of the risk-based capital framework in Hong Kong SAR, India, Mexico, Saudi Arabia and South Africa. In the European Union and the United States, only implementation of the risk-based capital framework was assessed.

European Union

The European Union's implementation of the Basel risk-based capital framework was found to be in line with the Basel III standards in many respects. Eight of the 14 components assessed were found to be "compliant" and four components were assessed as "largely compliant". However, the implementation of the internal ratings-based (IRB) approach for credit risk was found to be "materially non-compliant", in light of the permanent partial use of exemptions for various types of credit exposures and the concessionary risk weights extended to small and medium-sized enterprise exposures. The counterparty credit risk component was found to be "non-compliant", in light of the credit valuation adjustments provided for various obligor exposures. Overall, the prudential regulatory framework in the European Union and the nine Member States whose central banks and/or prudential supervisory agencies are members of the Basel Committee[11] was evaluated to be "materially non-compliant" with the minimum standards prescribed under the Basel framework.

Hong Kong SAR

The implementation of the Basel risk-based capital framework in Hong Kong SAR was found to be closely aligned with the Basel III standards. Twelve of the 13 assessed components were found to be "compliant". The one component assessed as "largely compliant", the Pillar 3 disclosure requirements, identified some differences compared with the Basel standards regarding the frequency of disclosures, although these were not considered material. The overall framework of Hong Kong's capital regulation was found to be "compliant".

Hong Kong's implementation of the LCR standard was also found to be closely aligned with the Basel framework, with both assessed components and the overall implementation graded as "compliant". No deviations from the Basel framework were identified.

[11] Belgium, France, Germany, Luxembourg, Italy, the Netherlands, Spain, Sweden and the United Kingdom.

India

India's implementation of the Basel risk-based capital framework was found to be closely aligned with the Basel III standards: all 14 assessed components were found to be "compliant". The overall framework of India's capital regulation was graded "compliant".

India's overall implementation of the LCR standard was graded "largely compliant". Of the two assessed components, implementation of the LCR disclosure requirements was found to be "compliant". Implementation of the LCR was found to be "largely compliant", due to one material finding with respect to the inclusion of State Development Loans as high-quality liquid assets (HQLA).

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 improved the level of compliance with the Basel standards and demonstrate India's strong commitment to implement the global regulatory reforms.

Several aspects of the Indian framework are more conservative than the Basel framework. This includes higher minimum capital requirements and risk weightings for certain types of exposures, as well as higher minimum capital ratios. The Reserve Bank of India also applies certain restrictions to banking activities through its prudential framework and maintains a Statutory Liquidity Requirement in parallel to the LCR.

Mexico

Mexico's implementation of the Basel risk-based capital framework was found to be closely aligned with the Basel III standards: 12 of the 15 assessed components were found to be "compliant". Two components, capital buffers and Pillar 3 disclosure requirements, were assessed as "largely compliant", while one component, the internal models approach for market risk, was considered not applicable, as it has not been implemented by the Mexican authorities. The overall framework of Mexico's capital framework was found to be "compliant".

Mexico's implementation of the LCR standard was also found to be closely aligned with the Basel framework, with both assessed components and the overall implementation graded as "compliant".

During the assessment, the Mexican authorities used the discipline of the RCAP exercise to undertake reform and upgrade their prudential framework. This has resulted in a significant strengthening of the Mexican capital and liquidity regimes and considerably improved the level of compliance with the Basel minimum standards.

Saudi Arabia

Saudi Arabia's implementation of the Basel risk-based capital framework was found to be closely aligned with the Basel III standards. All 14 assessed components were found to be "compliant", and the overall framework of Saudi Arabian capital regulation was graded "compliant".

Saudi Arabia's overall implementation of the LCR standard was graded "largely compliant". Of the two assessed components, implementation of the LCR disclosure requirements was found to be "compliant". Implementation of the LCR was found to be "largely compliant", due to one material finding with respect to the definition of HQLA.

The Saudi Arabian Monetary Authority (SAMA) made a number of amendments during the RCAP to strengthen alignment of its capital and liquidity rules with the Basel III framework. One finding has not been rectified, relating to the capital treatment of banks' sovereign exposures to Gulf Cooperation Council countries, but this was not considered material at the time of the assessment. Several aspects of SAMA's framework are more conservative than the Basel standards.

South Africa

South Africa's implementation of the Basel risk-based capital framework was found to be closely aligned with the Basel III standards. All 14 assessed components were found to be "compliant", and the overall framework of South African capital regulation was graded "compliant". South Africa's implementation of the LCR standard was also found to be closely aligned with the Basel framework, with both assessed components and the overall implementation graded as "compliant".

The South African Reserve Bank made a number of amendments during the RCAP to strengthen alignment of its capital and liquidity rules with the Basel III framework.

United States

The United States' overall implementation of the Basel risk-based capital framework was assessed to be "largely compliant".

Eleven out of 13 components of the capital framework were assessed as "compliant" or "largely compliant". However, material deviations were identified in two of the 13 components, which were assessed as "materially non-compliant". While the US agencies note that the US securitisation framework is, on average, more conservative than the Basel standard, a number of divergences were identified that for some US core banks lead to materially lower securitisation RWA outcomes than the Basel standard. The differences are mainly related to the US legislative prohibition of the use of external credit ratings in the US rules. Regarding the standardised approach for market risk, the assessment team found that the US rules implement on a permanent basis a transitional rule in the Basel framework for securitisations in the trading book; this deviation has a material impact on the capital of a few US core banks. For the other components, a number of potentially material deviations were identified.

Annex 2: Schedule of completed and upcoming RCAP jurisdictional assessments

RCAP: assessment of implementation of Basel III standards (2012–17)[1] Table 4

Basel Committee member jurisdiction		Assessment status	(Tentative) publication date of assessment report
European Union	Risk-based capital:	Preliminary assessment	Published October 2012
United States	Risk-based capital:	Preliminary assessment	Published October 2012
Japan	Risk-based capital: LCR:	Completed Planned	Published October 2012 December 2016
Singapore	Risk-based capital: LCR:	Completed Planned	Published March 2013 December 2016
Switzerland	Risk-based capital: LCR:	Completed Planned	Published June 2013 June 2017
China	Risk-based capital: LCR:	Completed Planned	Published September 2013 June 2017
Brazil	Risk-based capital: LCR:	Completed Planned	Published December 2013 September 2017
Australia	Risk-based capital: LCR:	Completed Planned	Published March 2014 September 2017
Canada	Risk-based capital: LCR:	Completed Planned	Published June 2014 September 2017
European Union	Risk-based capital: LCR:	Completed Planned	Published December 2014 March 2017
United States	Risk-based capital: LCR:	Completed Planned	Published December 2014 March 2017
Hong Kong SAR		Completed	Published March 2015
Mexico		Completed	Published March 2015
India		Completed	Published June 2015
South Africa		Completed	Published June 2015
Saudi Arabia		Completed	Published September 2015
Russia		Under way	December 2015
Turkey		Under way	March 2016
Argentina		Under way	June 2016
Korea		Under way	June 2016
Indonesia		Under way	September 2016

[1] Unless otherwise specified, the assessment of risk-based capital requirements and the LCR standard will take place simultaneously. Assessments of implementation of other Basel III standards will commence after their agreed implementation date.