Basel Committee on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III risk-based capital regulations – Russia

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Contents

Glossary

AMA	Advanced Measurement Approach
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
BSC	Banking Supervision Committee of the CBR
CBR	Central Bank of Russia
CCR	Counterparty credit risk
CEM	Current exposure method
CET1	Common Equity Tier 1
CVA	Credit valuation adjustment
EAD	Exposure at default
ECA	Export credit agency
ECAI	External credit assessment institution
FAQ	Frequently asked question
FIRB	Foundation IRB
G-SIB	Global systemically important bank
HVCRE	High volatility commercial real estate
ICAAP	Internal capital adequacy assessment process
IMA	Internal Models Approach
IRB	Internal Ratings-Based Approach
LGD	Loss given default
MR	Market risk
PD	Probability of default
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
RUB	Russian rouble
RWA	Risk-weighted assets
SIG	Supervision and Implementation Group of the Basel Committee
SME	Small and medium-sized enterprises
SREP	Supervisory review and evaluation process
TSA	The Standardised Approach
UCITS	Undertakings for collective investments in transferable securities
VaR	Value-at-risk

Preface

The Basel Committee on Banking Supervision sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented appropriately and consistently by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of the RCAP Assessment Team on the domestic adoption of the Basel risk-based capital standards in Russia and its consistency with the minimum requirements of the Basel III framework. The assessment focuses on the adoption of Basel standards applied to the Russian banks that are internationally or regionally active and of significance to its domestic financial stability.

The RCAP Assessment Team was led by Mr René van Wyk, Registrar of Banks and Head of Bank Supervision of the South African Reserve Bank (SARB). The Assessment Team comprised seven technical experts drawn from Brazil, Georgia, Hong Kong SAR, India, South Africa, Sweden and the United Kingdom (Annex 1). The main counterpart for the assessment was the Central Bank of Russia (CBR).

The assessment relied upon the data, information and materiality computations provided by the CBR up to 31 December 2015. The assessment findings are based primarily on an understanding of the current processes in Russia as explained by the counterpart staff and the expert view of the Assessment Team on the documents and data reviewed. The overall work was coordinated by the Basel Committee Secretariat with support from SARB staff.

Starting in May 2015, the assessment was divided into three phases: (i) completion of an RCAP questionnaire (a self-assessment) by the CBR; (ii) an off- and on-site assessment phase (June to December 2015); and (iii) a post-assessment review phase (January to March 2016). The second phase included an on-site visit for discussions with the CBR and representatives of Russian banks. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel risk-based capital standards in Russia. The third phase consisted of a two-stage technical review of the assessment findings: first by a separate RCAP Review Team and with feedback from the Basel Committee's Supervision and Implementation Group; and secondly, by the RCAP Peer Review Board and the Basel Committee. This two-step review process is a key instrument of the RCAP process to ensure quality control and the integrity of the assessment findings. The focus was on the consistency and completeness of the domestic regulations with the Basel minimum requirements. Issues relating to prudential outcomes, capital levels of individual banks, the adequacy of loan classification practices, or the CBR's supervisory effectiveness were not in the scope of this RCAP assessment exercise.

Where domestic regulations and provisions were identified to be not in conformity with the Basel framework, those deviations were evaluated for their current and potential impact (or non-impact) on the reported capital ratios for a sample of internationally active Russian banks. Some findings were evaluated on a qualitative basis. The assessment outcome was based on the materiality of findings and use of expert judgment. The Assessment Team also identified areas for follow-up action (Annex 11 and 12).

The report has three sections and a set of annexes: (i) an executive summary with a statement from the CBR on the material findings; (ii) the context, scope and methodology, and the main set of assessment findings; and (iii) details of the deviations and their materiality along with other assessment-related observations.

The RCAP Assessment Team acknowledges the professional cooperation received from the CBR throughout the assessment process. In particular, the team sincerely thanks the CBR staff for playing an instrumental role in coordinating the assessment exercise. The Assessment Team also thanks the representatives of Russian banks who provided data and information to the Assessment Team. The series of comprehensive briefings and clarifications provided by the CBR helped the RCAP assessors to arrive at

their expert assessment. The Assessment Team is hopeful that the RCAP assessment exercise will contribute to the sound initiatives that have been taken by the CBR and to further strengthening the prudential effectiveness and full implementation of the recent reform measures in Russia.

Executive summary

The Russian framework for risk-based capital requirements is implemented through various regulatory documents, including Regulations, Ordinances and Instructions (Annex 2). The prudential framework applies to all credit institutions, including commercial banking institutions and state-owned institutions. The framework has since been periodically updated to include Basel 2.5 and Basel III standards and was further amended in December 2015.

In July 2015, the CBR completed an extensive self-assessment of the capital regime as part of their preparation for the RCAP exercise. This self-assessment identified several material elements where the Russian framework was inconsistent with the Basel requirements. The RCAP Assessment Team identified additional variations from the Basel framework, which the Russian authorities resolved to rectify. The CBR used the discipline of the RCAP exercise to undertake reform and upgrade their prudential capital framework – to the extent feasible and consistent with Russian national interests.

As of the cut-off date for the RCAP assessment, and based on the amended risk-based capital requirements issued in December 2015, Russia is considered compliant with the minimum Basel capital standards. All components of the Basel framework were assessed as being compliant. The Russian capital framework benefited from a number of amendments during the course of the RCAP assessment, most of which became effective in January 2016 (see Annex 5). The additional regulatory initiatives undertaken by the CBR significantly improved the level of compliance with the Basel minimum standards. In the absence of these reforms, the RCAP assessment would have generated a considerably less positive result.

Several elements of the Basel capital framework, notably the Internal Ratings-Based (IRB) Approach for credit risk, at this point have little or no current participation by Russian banks. The RCAP team is confident that Russian rules in these areas comply with the Basel framework, but notes that these regulations have yet to be applied in substantial practice to a Russian bank.

The Russian capital framework, while upgraded and compliant with the Basel capital framework, faces several challenges. Given the nature of some of the recent amendments, effective and ongoing implementation will continue to pose a material challenge for both the CBR and the Russian banking industry. Although the RCAP exercise focused mainly on the consistency and completeness of prudential regulations, the intended prudential outcomes in Russia will critically depend on how the regulations are effectively put into practice, monitored and supervised.

The Assessment Team compliments the CBR for its substantial reforms and alignment with the Basel capital framework. However, the implementation work on many reforms has only just begun. Several important elements in the CBR's toolbox, notably the Pillar 2 capital framework, are still in early stages of implementation and their effectiveness will require the CBR and the banks to build up further experience with these elements. Further, the Assessment Team recommends keeping under review the Russian securitisation framework, of which the internal ratings-based approach has not been implemented yet (Annex 12). The team also identified a few items that would benefit from further clarification by the Basel Committee (Annex 11).

Response from the Russian authorities

The Bank of Russia (CBR) would like to express its thanks to the RCAP Assessment Team, headed by Mr René van Wyk, for the comprehensive review and recommendations shared over the course of the first assessment of implementing the Basel capital regulations in Russia. The RCAP exercise has offered a valuable opportunity to complement and refine the Russian regulatory framework.

The CBR welcomes the favourable assessment of the implementation of risk-based capital prudential regulations in Russia being compliant with the Basel framework in view of the RCAP Assessment team.

Based on the CBR's self-assessment and findings of the RCAP Assessment Team, the CBR has carried out rectifications of the existing regulations that came into force by the cut-off date of 31 December 2015. The CBR believes that these rectifications will result in full compliance of the Russian regulations with the Basel standards and will further strengthen the capital adequacy framework in Russia. At the same time, they appropriately address the specific features of the environment in which Russian banks operate and the risks they face.

Since mid-2010, all credit institutions in Russia have used the simplified standardised approach to credit risk and operational risk for regulatory capital adequacy purposes. As to Pillar 1 requirements, the CBR raised the risk weight for exposures with the highest risk from 1000% to 1250% together with setting the minimum capital requirement at 8% instead of 10%. This has brought the national minimum capital requirements into line with the Basel standard. Risk weights for claims to Russian sovereigns denominated in foreign currency have also been updated to reflect the current country risk score. Following the simplified standardised approach, proper risk weights for securitisation exposures have been introduced to the capital adequacy rules.

A number of improvements have also been made to the definition of capital. For example, the definition of significant investments in the capital of financial institutions was amended to include reciprocal cross holdings and investments in affiliated entities.

In 2015, the CBR implemented the Basel II Internal Ratings-Based Approach as an option for the largest Russian banks. The RCAP assessment facilitated the drafting and implementation of the IRB rules.

The CBR will continue putting into practice its Pillar 2 regime in line with Basel standards.

During 2016, the CBR will also review Russian banks' Pillar 3 reports to verify whether the Pillar 3 requirements have been effectively implemented. In 2016, the CBR intends to implement the revised Basel Pillar 3 framework, which was issued by the Committee in January 2015, and it will come into force starting from 2017.

Some findings may need further clarification, eg the treatment of the State Deposit Insurance Agency and the state corporation Vneshekonombank (Bank for Development and Foreign Economic Affairs) as public sector entities (PSEs). This issue was assessed as a non-material deviation because the current regulations do not explicitly specify that the Russian sovereign unconditionally covers the liabilities of these institutions. The CBR believes that the Basel II framework's treatment of PSEs is ambiguous and does not require a sovereign guaranty covering the liabilities of an institution for it to be treated as a PSE, especially if the risk weight for this institution is higher than that applied to claims on the respective sovereign.

As to the rules-based nature of the Russian regulation, an issue that particularly emerged in the review of the regulatory implementation of Pillar 2, the CBR believes that the ICAAP Regulation is in line with the principle-based spirit of Basel II.

Regarding the counterparty credit risk (CCR) requirements, in our opinion the CBR Internal Capital Adequacy Assessment Process (ICAAP) Regulation is in line with Pillar 2.

On the whole, the CBR confirms its commitment to the full and consistent application of the Basel standards. We also wish to acknowledge and appreciate the proficiency and the integrity of the RCAP Assessment Team. The CBR believes that the RCAP process facilitates the creation of a more level playing field across member jurisdictions of the Basel Committee, as well as providing regulatory consistency and comparability and promoting global financial stability.

1 Assessment context and main findings

1.1 Context

Status of regulatory implementation

The Central Bank of Russia (CBR) is responsible for the regulation and supervision of the banking sector. Its powers are derived from the Constitution of the Russian Federation (Article 75), and further spelled out in Federal Laws no 395-1 and no 86-FZ. The powers of the CBR include setting minimum prudential requirements, the issuance of banking regulation and approval of banking licenses.[1] All regulations, instructions and ordinances issued by the CBR are legally binding.

The CBR has adopted the Basel III risk-based capital standards through a set of regulations, instructions and ordinances. The Basel Pillar 1 capital regulations are all in effect as on the date of the assessment.[2] In 2015, the CBR implemented regulations for the Internal Ratings-Based Approach (IRB) for credit risk. At the date of the assessment, two Russian banks submitted an application for IRB approval, and a number of banks are in process of preparing for IRB adoption. The CBR has not issued regulations for the advanced Basel approaches for market risk and operational risk (Annex 10).

Status of approval of Basel advanced approaches

Number of banks, 1 October 2015 Table 1

	Advanced approach approved by Russian authorities	Application submitted and under review by Russian authorities	Pre-application phase (bank is in process of developing models for approval)	Intent to start pre-application phase
Credit risk (IRB)	0	2	5	0
Market risk (IMA)	NA	NA	NA	NA
Operational risk (AMA)	NA	NA	NA	NA

Source: CBR.

Regarding Pillar 2, in 2015 the CBR issued regulations stipulating the requirements for banks' internal capital adequacy assessment process (ICAAP), as well as the framework for the supervisory review and evaluation process (SREP). At the time of the assessment, Russian banks were in the process of preparing their first ICAAPs for supervisory review by the CBR in 2016. The CBR expects to complete the first cycle of Pillar 2 reviews in 2017 based on the reporting data for 2016.

1 The formal tasks and responsibilities of the CBR include: (i) developing the financial market and ensuring its stability; (ii) setting rules, binding for credit institutions, for conducting banking operations; (iii) the state registration, granting bank licenses to credit institutions, revocation of licenses and participation in financial rehabilitation in cooperation with the Deposit Insurance Agency; (iv) regulation of credit institutions and banking groups (prudential ratios etc); (v) supervision of credit institutions and banking groups' activities (off- and on–site), and taking formal and informal measures. The CBR has no legal powers to supervise the parent company that is not a bank; (vi) setting requirements for accounting (financial) statements and reporting (both on a solo and consolidated level (banking groups and banking holdings).

2 The Assessment Team relied on English translations provided by the CBR of the domestic regulations and regulatory documents. The team assessed the appropriateness of the English translation of the Russian rules through comparison with selected parts of the original text in Russian. For those sections, the translation was generally found to be appropriate.

Regarding Pillar 3, the CBR issued minimum disclosure requirements for banks in 2013, covering both the disclosure requirements on a solo basis and consolidated basis. The disclosure requirements were subsequently revised and updated, including during the RCAP assessment, and expanded with disclosure requirements for capital instruments and IRB in December 2015.

Regulatory system, model of supervision, and binding nature of prudential regulations

All Russian banks are subject to Basel capital regulation on both a standalone and consolidated level. Parent companies of banks, such as diversified non-financial groups, are subject to reporting requirements. In evaluating the materiality of their findings, the RCAP Assessment Team focused on the five largest internationally active Russian banks (see Annex 8).

The CBR issues prudential regulations that are legally binding through the constitutional powers delegated to the CBR. The structure of mandatory Russian regulations consists of Regulations ("P"), Instructions ("I"), and Ordinances ("U"). Annexes 2 and 6 provide further information regarding the structure and bindingness of the Russian prudential regulations.

Some regulations are supplemented by additional guidance, eg methodological guidelines and recommendations or supervisory letters. These supplementary documents do not have regulatory status, but banks' compliance with these documents is taken into account into supervision and the CBR may follow up in case of non-compliance.

The team verified the bindingness of the prudential regulations through an assessment of the RCAP bindingness criteria, and agrees that the documents are binding (see Annex 6). The team also met with Russian banks, which all confirmed the bindingness of the prudential regulations.

Hierarchy of Russian laws and regulatory instruments — Table 2

Laws that empower the CBR as banking supervisor	Constitution of the Russian Federation (Article 75) (1993)
	Federal Law no 86-FZ on the Central Bank of the Russian Federation (the Bank of Russia) (2002)
	Federal Law no 395-1 on Banks and Banking Activities (1990)
Supervisory regulations derived from the above laws (various)	CBR Regulations ("P")
	CBR Instructions ("I")
	CBR Ordinances ("U")
Non-binding supervisory documents	CBR Letters, methodological guidelines and recommendations

The Russian rule-making process is intricate and can be time-consuming, involving as it does various rounds of internal and external consultation. Draft regulations are reviewed by various CBR departments before being issued for public consultation. Draft regulations are also subject to a regulatory impact analysis. Following public consultation, the draft regulations are submitted to the CBR's Banking Supervision Committee (BSC) for approval. The BSC is the governing body of the CBR responsible for the preparation of decisions on banking regulation. The Committee brings together key CBR departments involved in banking supervision. The Chair of the Committee is approved by the Board of Directors of the CBR. Once approved by the BSC, draft regulations are publicly reviewed as part of an anti-corruption examination and submitted to the Board of Directors of the CBR for formal sign-off. The new regulation is then registered by the Russian Ministry of Justice, which verifies the authority's right to issue regulatory documents, and published in the official Bulletin of the CBR or, since 1 January 2016, on the CBR's official website. The regulation comes into force 10 days after its publication, unless another date has been explicitly specified.

1.2 Structure of the banking sector

As of 1 October 2015, 714 banks[3] and 120 banking groups were registered in Russia, with total assets (including off-balance sheet positions)[4] of about RUB 80,688 billion (approximately USD 1,218 billion as of 1 October 2015). The banking sector comprises about 110% of Russian gross domestic product. In terms of ownership, approximately 57% of the banking assets are owned by state-controlled banks, while 36% is privately controlled by Russian residents and 7% controlled by foreigners as of 1 October 2015. The industry is dominated by the five largest banks, which hold approximately 60% of total banking assets (see Annex 8). There are no global systemically important banks (G-SIBs) in Russia. The CBR has identified 10 Russian banks as systemically relevant from a domestic point of view.[5]

Under the Basel III standards, the weighted average total capital ratio of the 10 domestically important banks (D-SIBs) stood at 13.3% on 1 October 2015. Credit risk is the main type of risk for Russian banks, and amounts to approximately 90% of total risk-weighted assets. This is followed by operational risk and market risk.

Russian banks have a relatively traditional business model with limited trading activity or involvement in complex financial activity, such as securitisation. There is no market for correlation trading, and trading in commodity risk and credit derivatives is limited. A notable feature of the Russian economy is the relatively low level of mortgage debt. Although there has been strong growth in recent years, residential mortgage loans represent approximately 5% of total bank loans. The mortgage market has been developing since the economic liberalisation of Russia in the early 1990s. About two thirds of bank loans are corporate loans.

1.3 Scope of the assessment

Scope

The RCAP Assessment Team has considered all documents that effectively implement the risk-based Basel capital framework in Russia as of end-December 2015, the cut-off date for the assessment (Annex 4).

The assessment focused on two dimensions:

- A comparison of domestic regulations with the capital standards under the Basel framework to ascertain that all the required provisions have been adopted (*completeness* of the Russian domestic regulation); and
- Whether there are any differences in substance between the domestic regulations and the capital standards under the Basel framework and their significance (*consistency* of the Russian regulation).

In carrying out the above, the RCAP Assessment Team considered all binding documents that effectively implement the Basel framework in Russia as discussed above. Importantly, the assessment did not evaluate the adequacy of capital or resilience of the banking system in Russia or the supervisory effectiveness of the Russian regulatory authorities.

Any identified deviation was assessed for its materiality (current and potential, or having an insignificant impact) by using both quantitative and qualitative information. For potential materiality, in

[3] Banks only, non-banking credit institutions are not included.

[4] Hereinafter the measure of banking assets including off-balance sheet positions is the denominator of the Basel Leverage ratio.

[5] See CBR press release: www.cbr.ru/press/PR.aspx?file=20102015_100129ik2015-10-20T10_01_03.htm.

addition to the available data, the assessment used expert judgment on whether the domestic regulations met the Basel framework in letter and spirit (see Section 1.4).

Bank coverage

For the purposes of assessing the materiality of deviations, data were collected from the following five banks: Sberbank, VTB Group, Gazprombank, Otkrytie and Alpha Bank. These banks are internationally or regionally active and are the largest banks in Russia. They hold approximately 60% of total assets of the Russian banking system (see also Annex 8).

Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, both at the level of each of the 14 key components of the Basel framework and overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.[6]

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact (or non-impact) on the capital ratios of the banks. The quantification was, however, limited to the agreed population of internationally active banks. Wherever relevant and feasible, the Assessment Team, together with the Russian authorities, attempted to quantify the impact based on data collected from Russian banks in the agreed sample of banks (see Annex 8). The non-quantifiable aspects of identified deviations were discussed and reviewed in the context of the prevailing regulatory practices and processes with the Russian authorities.

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the Assessment Team. In doing so, the team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Section 2 and Annex 8.

In a number of areas, the Russian rules go beyond the minimum Basel standards. Although these elements provide for a more rigorous implementation of the Basel framework in some aspects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (see Annex 9 for a listing of areas of super-equivalence).

1.4 Main findings

A summary of the main findings is given below.

Summary assessment grading — Table 3

Key components of the Basel capital framework	Grade
Overall grade:	C
Scope of application	C
Transitional arrangements	C
Pillar 1: Minimum capital requirements	
Definition of capital	C

[6] This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable (N/A). See www.bis.org/publ/bcbs264.htm for further details.

Credit Risk: Standardised Approach	C
Credit risk: Internal Ratings-Based Approach	C
Securitisation framework	C
Counterparty credit risk framework	C
Market risk: Standardised Measurement Method	C
Market risk: Internal Models Approach	NA
Operational risk: Basic Indicator Approach and Standardised Approach	C
Operational risk: Advanced Measurement Approaches	NA
Capital buffers (conservation and countercyclical)	C
Pillar 2: Supervisory review process	
Legal and regulatory framework for the Supervisory Review Process and for taking supervisory action	C
Pillar 3: Market discipline	
Disclosure requirements	C
Compliance assessment scale (see Section 1.3 for more information on the definition of the grades): C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).	

Overarching issues and observations

Structure and nature of the Russian banking sector

Four of the 10 domestic systemically important banks in Russia are state-owned or controlled. While the Russian economy has developed rapidly over the last 20 years, the banking sector has kept a relatively simple structure with a traditional business model focused on corporate lending. Retail lending still is a relatively small component of bank assets, in part reflecting the relative young mortgage market.

Russian banks typically do not engage in complex trading activity or financing structures. The market for securitisations has come to a near halt after nascent activity in the early 2000s. The relatively simple nature of Russian banking is mirrored in the adoption of the Basel standards by the CBR, which is primarily based on simplified approaches with limited risk sensitivity. The CBR has typically adopted neither the advanced Basel approaches nor the regulations for more complex financial instruments including credit derivatives or correlation trading (see Annex 10). Recently the CBR issued regulations for the Internal Ratings-Based Approach (IRB).

The particular structure of the Russian banking sector was also found to have a bearing on the disclosure requirements set by the CBR, which omit certain requirements related to advanced approaches or more sophisticated risk management techniques. As the Russian banking sector continues to develop and becomes more competitive, it will become increasingly important to have full disclosure requirements in place to support and encourage market discipline.

Rules-based nature of Russian regulations

The Assessment Team found that the Russian regulations are more inclined towards being rule-based as opposed to principle-based, as often envisaged by the Basel framework. The CBR explained that the rules-based approach is partly cultural and partly the result of requirements by the Ministry of Justice that seek to minimise the risk of corruption. Notably, new regulations are required to be separately reviewed under the Russian anti-corruption law, which favours a more specific and rule-based approach over a more general and principles-based approach.

This overarching finding particularly emerged in the review of the regulatory implementation of Pillar 2 where a number of inconsistencies were initially identified (see also further below). A rules-based approach can be of concern when the banking sector is exposed to certain risks that are not defined in a comprehensive manner under the existing Pillar 1 requirements of the Basel framework. For such risks the Basel framework relies on the Pillar 2 implementation, which is more principles-based and caters for jurisdiction-specific and bank-specific risks that cannot easily be captured under Pillar 1.

In discussions with the CBR and Russian banks, the team found that Russian banks can be exposed to certain risks, such as concentration risk and interest rate risk, that are not adequately captured in Pillar 1 of the Basel framework. The team generally notes that the CBR's more rules-based approach requires continued vigilance to ensure that regulations remain up-to-date and appropriate with regard to developments in the Russian financial markets and the banking sector.

Calibration of minimum requirements and 1000% risk weight instead of 1250%

The Basel framework applies an 8% minimum capital ratio. Based on this ratio, certain exposures are risk-weighted at 1250% to achieve a 100% capital charge for these exposures (1250% being the inverse of 8%). In its implementation of the Basel standard, the CBR set the minimum capital ratio at first at 10%, and a maximum risk weight of 1000% for those exposures where the Basel standard applies 1250% (1000% being the inverse of 10%). Notwithstanding the higher minimum capital requirement, the CBR applied a multiplier of 12.5 to calculate RWA from capital charges for market risk and operational risk.

The team discussed this implementation with the CBR and expressed the concern that the CBR's approach could potentially result in a loss of comparability with bank capital ratios in jurisdictions that apply the 1250% risk weight. Also, the 1000% risk weight could effectively lead to a lower capital buffer, as the Basel buffer requirements are expressed as percentage of total RWA. The materiality of these effects would depend on the size of the exposures subject to the 1000% risk weight.

In the course of the assessment, the CBR decided to lower the minimum capital requirement from 10% to 8% and to align the 1000% risk weight with the Basel risk weight of 1250%. The team considers that this amendment fully aligns the CBR's minimum capital requirements with the Basel standard. The team would nevertheless recommend the Basel Committee to clarify how to implement the 1250% risk weight for jurisdictions that seek to apply a minimum capital requirement higher than 8% (Annex 11).

Main findings by Basel risk-based capital component

Scope of application

Overall, the team assesses the implementation of the scope of application in Russia as compliant with the Basel standard. As a general matter, the Basel III capital framework should apply on a fully consolidated basis to all internationally active banks at every tier within a banking group, and to any bank holding company that is the parent entity within a banking group, to ensure that the requirements capture the risk of the whole banking group. The CBR applies the Basel framework to all banks, irrespective of their size, and on both a standalone and a consolidated basis.

In the Russian Federation, the legal concept of dedicated bank holding companies does not exist and Russian legislation therefore does not empower the CBR to regulate and supervise the activities of such bank holding companies; however, the CBR is entitled to require the parent entity to compile, submit and disclose consolidated financial statements and information on risks. The CBR may also restrict, if deemed necessary, any transactions and dividend flows between the bank and the parent entity. The Assessment Team views this as consistent with the Basel framework.

The Basel framework permits banks to consolidate significant investments in insurance entities as an alternative to the deduction approach on condition that the method of consolidation results in a minimum capital standard that is at least as conservative as that which would apply under the deduction approach (ie the Basel standard requires a bank to calculate its capital ratios under both the deduction and consolidation approach and use the most conservative capital ratio). In the course of the assessment, the CBR amended its regulation to implement this requirement in a manner consistent with the Basel standard.

Transitional arrangements

The transitional arrangements are assessed as compliant with the Basel standard. The Basel framework requires that a capital floor be used by banks using the IRB approach for credit risk or the Advanced Measurement Approach (AMA) for operational risk. The Basel framework allows jurisdictions to base the capital floor on the approach that is being used by banks prior to the approval for using the advanced approach. The team also notes that the Basel Committee is currently reviewing the design of the floors.

The CBR has implemented the capital floor based on the RWAs that the bank would have held had it been on the Standardised Approach for credit risk. In addition, the Bank of Russia does not deduct general provisions from the capital floor, which effectively results in a more conservative outcome than the Basel standard. Note that the CBR does not allow banks to use the AMA and hence no specific floor for operational risk has been implemented (see also below under operational risk).

Definition of capital

The team assesses the CBR's implementation of the definition of capital to be compliant with the Basel framework. The CBR were using a scaling factor of 1.00 for risk-weighted asset amounts for credit risk assessed under the IRB approach but this was rectified to the Basel scaling factor of 1.06. The CBR were also using a risk weighting of 1000% in all cases where the Basel framework specified a risk weighting of 1250%. The CBR updated the regulations to use only a risk weighting of 1250%, as per the Basel framework.

The team observed that the CBR includes in CET1 preference shares that function in almost exactly the same way as common shares except that these preference shares have no voting rights. In discussions with Russian banks, the team was informed that, due to the current sanctions on the Russian Federation, the government had designed these instruments so that the banking sector could be better capitalised. The Russian government purchased these preference shares from the banks with the aim of avoiding any dilution of the existing common shares and voting rights. As of 1 October 2015, these preference shares account for 4.95% of total CET1 capital. The team assessed the nature and substance of the preference shares against the Basel criteria for CET1 instruments. The team considers these preference shares to be substantially the same as common shares, and listed the issue as an observation.

The Assessment Team also observed certain areas where the CBR implemented the definition of capital more conservatively than the Basel standard:

The Basel framework allows banks using the standardised approach for credit risk to include general provisions in Tier 2 capital, subject to the limit of 1.25% of risk-weighted assets. However, the Russian Federation regulations do not allow general provisions to be recognised as Tier 2 capital, as such provisions are prohibited by the CBR.

The Basel framework requires that a capital floor be used by banks using the IRB approach for credit risk or the Advanced Measurement Approach (AMA) for operational risk. The Basel framework stipulates that the floor that should be used but also allows banks that are implementing the advanced approaches after year-end 2008 to use a different capital floor. This capital floor could be based on the approach used by the bank prior to being approved to use the advanced approach. The Russian Federation regulations stipulate that the capital floor that will be used will be based on the RWAs that the bank would have held had it been on the Standardised Approach for credit risk. In addition, general provisions are not deducted from the capital floor.

The Basel framework requires that investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation be deducted from capital under certain circumstances. The Russian Federation regulation requires that these investments are deducted from capital but also uses a wider definition of indirect holdings of this capital. The loan used by the borrower to invest in capital of the banking, financial and insurance entities that are outside the scope of regulatory consolidation is treated as if the bank itself had invested in the capital of the financial entity.

Regarding the requirement that capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss, the CBR has implemented the contractual approach. Consistent with the Basel standard, the Russian Federation regulations specify that all non-Common Equity Tier 1 and Tier 2 instruments shall be issued with a provision that requires such instruments to be converted into common shares upon the occurrence of trigger events.

Capital buffers (conservation and countercyclical)

The implementation of the capital buffers is assessed as compliant with the Basel standard. The CBR has implemented the capital conservation buffer, countercyclical buffer and a systemic risk buffer from 1 January 2016, in line with the Basel standard. The requirements include restrictions on the distribution of earnings when banks fall below the minimum buffer levels. Also, the rules faithfully implement the reciprocity provisions for the countercyclical capital buffer based on the geographic distribution of a bank's private sector credit exposures.

Regarding the countercyclical capital buffer, Russian banks must comply with the buffer within 12 months after the CBR's decision, in line with the Basel standard. The CBR informed the team that the countercyclical capital buffer has been set at zero at the start of 2016.

Credit Risk: Standardised Approach

The team finds the regulatory implementation of the standardised approach to be compliant with the Basel Framework. The CBR implemented the Simplified Approach for calculating capital charges for credit risk. Accordingly, for claims on sovereigns and central banks, the Russian regulation applies risk weights on the basis of the consensus country risk scores of export credit agencies (ECA) as specified in the OECD framework "Arrangement on Officially Supported Export Credits". However, as indicated above, an overarching finding concerns the limited risk sensitivity of the CBR's approach for non-sovereign exposures. The risk weightings are generally flat across risk buckets and do not depend on external credit ratings. The CBR informed the team it would review those risk weightings in the case of any external rating downgrades (eg for certain sovereign exposures) in order to ensure ongoing compliance with the Basel requirements.

The Assessment Team identified one deviation, which is assessed as not material, and one observation. Regarding the deviation, the Russian regulation defines two special entities as public sector entities (PSEs): the State Deposit Insurance Agency and Vneshekonombank (Bank for Development and Foreign Economic Affairs). The current Russian regulations do not explicitly specify that the Russian sovereign unconditionally covers the liabilities of these institutions. While the team acknowledges that the Russian government effectively controls both institutions, it is the team's view that a clearer legal basis would be needed to grant these institutions PSE status with the associated favourable Basel risk weights. Data received from the CBR suggest that banks' exposures to the State Deposit Insurance Agency and Vneshekonombank are not material and therefore have no substantial impact on the calculation of credit risk RWA. The amount of bank claims on the State Deposit Insurance Agency is approximately RUB 100 billion and on Vneshekonombank approximately RUB 15 billion. The claims amount to about 0.3% of the total credit risk RWA of Russian banks.

Regarding the observation, the team found that Russian law includes certain restrictions on banks taking possession of mortgages if the borrower defaults. This is, for example, the case for households with under-age children. In discussions with banks, the team was informed that it may indeed be difficult and time-consuming for banks to seize collateral. The team notes that the Basel standard generally requires that supervisors should apply strict prudential criteria when risk-weighting claims secured by residential property. The team would therefore recommend that the CBR assesses the extent of the risks to the security posed by the repossession rules and whether to reflect this in the mortgage risk weights.

The team notes further that the Basel standard sets no specific guidance or criteria for the risk that the value of the collateral does not accurately reflect the costs associated with seizing the collateral – as well as the ability to sell it in distressed conditions. The team recognises that national practices may differ in this area. In this regard, the team would recommend that the Basel Committee reviews if further guidance may be needed regarding the risk-weighting of mortgages that may be difficult to repossess, to ensure prudence and consistency in approaches (Annex 11).

Credit risk: Internal Ratings-Based Approach

Based on amendments completed during the assessment process, the regulations implementing the credit risk IRB approach were assessed as compliant with the Basel framework.

The CBR issued the IRB regulation in September 2015. The IRB approach is aimed at the larger Russian banks: the regulation sets a minimum floor of RUB 500 billion (approximately USD 8 billion as of 1 October 2015) in total assets if banks are to qualify to submit an IRB application. At present, none of the Russian banks has received approval to use the IRB for regulatory capital calculations. Seven Russian banks are in process of applying for the IRB approach. The CBR expects to grant the first IRB approvals in the course of 2016.

Credit risk: Securitisation framework

The CBR's regulatory requirements for securitisations are assessed as compliant with the Basel standards. The CBR's approach is based on the simplified standardised approach for securitisation exposures, and applies a risk weight of 100% to all senior tranches and a risk weight of 1250% to junior tranches.

The market for securitisation is small in Russia (about 6% of the total volume of the Russian bond market as of 1 October 2015) and the securitisations are relatively simple. In its meetings with the banks, the team was informed that near-term expectations for the securitisation market are subdued, also due to the sanctions imposed by some countries on Russia.

The Basel standard specifies that banks that have received approval to use the IRB approach for the type of underlying exposures securitised (eg for their corporate or retail portfolio) must use the IRB approach for these securitisations. The CBR has not implemented the IRB approach for securitisations. Against the background of the small and simple securitisation market in Russia and the fact that no Russian bank has received IRB approval to date, the CBR informed the team of its decision to delay the introduction of the Basel IRB approach for securitisations. The additional time would allow the CBR to implement the recently issued new Basel standard for securitisations that will come into effect in 2018. While technically a deviation from the Basel standard, the team considers this finding to be not material in the light of the small market for securitisations and the subdued expectations. The team however lists this finding for a future follow-up RCAP assessment (Annex 12).

Counterparty credit risk framework

The CBR's implementation of the counterparty credit risk framework is assessed as compliant with the Basel framework. The team observed a number of areas where the CBR's implementation is relatively more conservative than the Basel standard. For example, for counterparty default risk, the CBR implemented only the Current Exposure Method (CEM) and banks are not allowed to use other methods for capital adequacy purposes. Similarly, for the capital requirements for Credit Value Adjustments, the CBR implemented the standardised method only. Further, for the capitalisation of exposures to the default fund of central counterparties, the CBR has implemented Basel Method 2 only, whereas the Basel standard would provide a choice between two different methods. Method 2 is a simpler but on average more conservative approach than Method 1, which is more risk-sensitive.

Market risk Standardised Approach

The CBR's implementation of the market risk Standardised Approach is assessed as compliant with the Basel standard. During the course of the assessment, the CBR made a number of rectifications and introduced capital requirements for the commodity risk and interest rate risk of credit derivatives in the trading book. In addition, the CBR introduced requirements for the gamma and vega risk of options, as well as guidance on valuation adjustments of less liquid positions for regulatory capital purposes.

The CBR has not implemented the Advanced Modelling Approaches for market risk. Additionally, the CBR has not specified a separate treatment for correlation trading activity, which is non-existent in Russia at present. The team notes that, should such activity emerge, it would be subject to the standardised approach for securitisation exposures, which effectively results in a more conservative treatment than the Basel standard.

Operational risk: Basic Indicator Approach and Standardised Approach

The team assesses the regulatory implementation of operational risk as compliant. The team finds that the CBR has implemented only the BIA and none of the more advanced Basel approaches for operational risk. The CBR informed the team that it is considering the implementation of more advanced approaches for operational risk in due course, but that it is awaiting the Basel Committee's current review of the operational risk framework.

Overall, the team considers the CBR's choice of the BIA to be commensurate with the current level of sophistication of Russian banks. The team also notes that the BIA is a relatively conservative choice compared with the more advanced Basel approaches. The finding is therefore considered not material.

Supervisory review process

The team assesses the regulatory implementation of the Pillar 2 framework as compliant. The team found some minor regulatory deviations with regard to the Pillar 2 requirements for risk management of market risk and counterparty credit risk (CCR). These deviations are typically related to the relatively simple and traditional business models of Russian banks and therefore considered not material in practice. More generally, however, the team finds that the CBR's implementation of the Pillar 2 regulation is in some areas less prescriptive and specific than the Basel Pillar 2 standard. For example, the Pillar 2 regulation assigns some responsibilities in a general fashion to the banks, which would normally be expected to be assigned more specifically to the board and senior management. Nevertheless, the team acknowledges that the implementation of Pillar 2 is ultimately more about supervision, supervisory practices and processes and less about certain minimum requirements laid down in regulation (the focus of the RCAP assessment).

In this context, although Russia's domestic regulations on risk management and capital management have covered the broad expectations under Pillar 2, the team notes that there has so far not been a full and thorough implementation of Pillar 2 in Russia. The CBR is in the process of completing its first SREP cycle (see Annex 13). The Russian banks informed the team that they were preparing their first ICAAP reports, for an evaluation by the CBR in 2017 on the reporting data for 2016.

Disclosure requirements (Pillar 3)

The team assesses the regulatory implementation of Pillar 3 as compliant with the Basel standard. The Basel Pillar 3 standard complements the minimum capital requirements (Pillar 1) and supervisory review process (Pillar 2) by setting out disclosure requirements which allow the market participants to assess the capital adequacy of an institution. Financial institutions are required to disclose details on the scope of application, capital, risk exposures, risk assessment processes, the capital adequacy of the institution, and variable remuneration. During the assessment, the CBR issued the disclosure requirements for remuneration and the IRB, as well as a considerable number of amendments and rectifications.

2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the risk-based capital standards of the Basel framework are detailed below. The focus of Sections 2.1 to 2.5 is on findings that were assessed to be deviating from the Basel minimum standards and their materiality. Section 2.6 lists some observations and other findings specific to the implementation practices in Russia. Observations do not indicate sub-equivalence, but are considered compliant with the Basel standard.

2.1 Scope of application

Section grade	Compliant
Summary	In general, the Basel III capital framework should apply on a fully consolidated basis to all internationally active banks at every tier within a banking group, and to any holding company that is the parent entity within a banking group, to ensure that the requirements capture the risk of the whole banking group. In the Russian Federation, the legal concept of dedicated bank holding companies does not exist and Russian legislation therefore does not empower the CBR to regulate and supervise the activities of such bank holding companies; however, it is entitled to require the bank holding companies to compile, submit and disclose consolidated financial statements and information on risks. In addition, the CBR is empowered to restrict, if deemed necessary, any transactions and dividend flows between the bank and the parent entity.

2.2 Transitional arrangements

Section grade	Compliant
Summary	No material deviations identified.
Basel paragraph no	Basel III paragraph 94 and Annex: Minimum requirements to ensure loss absorbency at the point of non-viability
Reference in domestic regulation	Paragraph 10 of Regulation no 395-P
Findings	The Basel framework stipulates that national implementation by member countries would begin on 1 January 2013. The CBR published the final regulations on 28 December 2012 and therefore, in order to provide the banks with some additional time, changed the date of bringing the transitional arrangements into effect from 1 January 2013 to 1 March 2013. The CBR stipulated that none of the banks included in the scope of the assessment issued any instruments between the date of 1 January 2013 and 1 March 2013.
Materiality	Not material
Basel paragraph no	Basel III Paragraphs 95–96
Reference in domestic regulation	Paragraphs 8.2 and 8.3 of Regulation no 395-P
Findings	Certain non-cumulative preference shares do not have a loss absorption mechanism and therefore do not meet all the requirements of CET1 capital. As per the Basel framework, paragraph 95, these preference shares should be excluded from CET1 capital. However, the CBR are phasing out these non-cumulative preference shares instead.
Materiality	Not material As of 1 October 2015 the non-cumulative preference shares account for 0.02% of the total banking sector's CET1 capital. Only one Russian bank has issued such shares. Excluding these shares from CET1 capital has an insignificant impact on the capital adequacy ratio of that bank.

2.3 Pillar 1: Minimum capital requirements

2.3.1 Definition of capital

Section grade	Compliant
Summary	The CBR's implementation of the definition of capital is assessed to be compliant. The CBR made a number of rectifications during the assessment, including regarding the implementation of the scaling factor of 1.06 for IRB banks, and the introduction of a 1250% risk weight for assets that were previously risk-weighted at 1000%. The team notes that the CBR also decided to lower the minimum capital requirement from 10% to 8%, equal to the Basel minimum capital requirements.

2.3.2 Capital buffers (conservation and countercyclical)

Section grade	Compliant
Summary	The CBR issued the final rule on capital buffers in December 2015. The team identified no deviations from the Basel standard.

2.3.3 Credit risk: Standardised Approach

Section grade	Compliant
Summary	The CBR's regulatory requirements for credit risk Standardised Approach is assessed as compliant with the Basel Standards. The Russian regulations use the Simplified Approach for calculating the standardised capital charges for credit risk. The Russian regulations do not employ external credit ratings and instead use the Basel national discretions and fixed risk weights.
Basel paragraph no	Basel II paragraphs 57–58: Claims on non-central government public sector entities (PSEs)
Reference in domestic regulation	Regulation no 139-I implements the Simplified Standardised Approach (Basel II, Annex 11, paragraph 7). Paragraph 2.3, appendix 1 to Regulation no 139-I: codes 8904, 8960.
Findings	The Russian regulations define two special entities as Public Sector Entities (PSEs): the State Deposit Insurance Agency and Vneshekonombank (Bank for Development and Foreign Economic Affairs). The current Russian regulations do not explicitly specify that the Russian sovereign unconditionally covers the liabilities of these institutions. While the team acknowledges that the Russian government effectively controls both institutions, it is the team's view that a clearer legal basis would be needed to grant these institutions PSE status with the associated more favourable Basel risk weight.
Materiality	Not material Data received from the CBR show that Russian banks' exposures to the State Deposit Insurance Agency and Vneshekonombank are not material and therefore have no significant impact on the calculation of RWAs or capital ratios. The amount of bank claims on the State Deposit Insurance Agency is approximately RUB 100 bn (USD 1.4 bn) and on Vneshekonombank approximately RUB 15 bn (USD 0.2 bn). This corresponds to approximately 0.30% of total credit risk RWA of Russian banks.

2.3.4 Credit risk: Internal Ratings-Based Approach

Section grade	Compliant
Summary	The IRB regulation[7] was introduced in September 2015. No Russian bank has yet received approval for using the IRB approach for regulatory capital purposes. The Assessment Team identified a number of deviations, which are assessed as not material.
Basel paragraph no	Basel II paragraph 523
Reference in domestic regulation	-
Findings	The Basel framework sets out requirements for recognition of leasing. In course of the assessment, the CBR updated the regulation, which now reflects most of the Basel requirements except for one standard: the difference between the rate of depreciation of the physical asset and the rate of amortisation of the leases payments must not be so large as to overstate the CRM attributed to the leased assets.
Materiality	Not material Given the nature of the deviation this is considered to be a non-material deviation.
Basel paragraph no	Basel II paragraph 218
Reference in domestic regulation	IRB regulation paragraph 2.10
Findings	The Basel framework defines a corporate exposure as a debt obligation of a corporation, partnership, or proprietorship. The Russian regulation is less prescriptive. In particular, it states that the corporate asset class should include all exposures not allocated to the other asset classes such as sovereign, bank, retail and equity. As per CBR explanation, this deviation is due to the fact that the current Basel definition of asset classes creates operational difficulties for banks allocating certain exposures, for instance, to high net worth individuals.
Materiality	Not material Taking into consideration that other asset class definitions are aligned with the Basel framework, this deviation is assessed as not material.
Basel paragraph no	Basel II paragraph 231
Reference in domestic regulation	IRB regulation paragraph 2.6
Findings	The Basel IRB framework sets out a number of criteria for an exposure to be treated as retail. One of the conditions is that the loan has to be extended to an individual who is an owner-occupier of the property. The Russian regulation does not set out this requirement or any other limits on the maximum number of housing units per exposure as banks cannot in practice track changes in the loan purpose (owner occupied/buy-to-let) over time. The team notes that the requirement that the investor be an owner-occupier is not necessary to achieve retail treatment under the Basel standardised approach to credit risk. The prudential motive for the different definitions of retail is not clear, and the issue has been raised in a number of other jurisdictional assessments. The Basel Committee has been asked to review this matter.
Materiality	Pending Basel Committee review of IRB retail definition.
Basel paragraph no	Basel II paragraph 337
Reference in domestic regulation	-

7 Regulation no 483-P on the procedures for calculating credit risk based on internal ratings.

Findings	According to the Basel Framework, when only the drawn balance of facilities have been securitised, banks must ensure that they continue to hold required capital against their share of undrawn balances. For such facilities, banks must reflect the impact of credit conversion factors in their EAD estimates rather than in the LGD estimates etc. The Russian regulation does not reflect this requirement as the securitisation framework has not been implemented.
Materiality	Not material This deviation is considered not material given the relatively small securitisation market in Russia.

2.3.5 Securitisation framework

Section grade	Compliant
Summary	The CBR's regulatory requirements for securitisation are assessed as compliant with the Basel standards. The CBR's approach is based on the simplified standardised approach for securitisation exposures, and requires a risk weight of 100% for all senior tranches. The team found that the CBR has not implemented the IRB approach for securitisations, but considers this a non-material finding at present.
Basel paragraph no	Basel II paragraphs 606–43
Reference in domestic regulation	Not implemented
Findings	The Basel standard specifies that banks that have received approval to use the IRB approach for the type of underlying exposures securitised (eg for their corporate or retail portfolio) must use the IRB approach for these securitisations. The CBR has not implemented the IRB approach for securitisations.
Materiality	Not material The securitisation market is small in Russia (about 6% of the total volume of the Russian bond market as of 1 October 2015) and securitisations are relatively simple. In its meetings with the banks, the team was informed that near-term expectations for the securitisation market are subdued, also in the light of the sanctions imposed by some countries that make it difficult to attract foreign investment. Against this background and the fact that there are so far no Russian banks with IRB approval, the CBR informed the team of its decision to delay the introduction of the Basel IRB approach for securitisations. The additional time also allows the CBR to implement the recently issued new Basel standard for securitisations that will come into effect in 2018. While technically a deviation from the Basel standard, the team therefore considers this finding not material. The team would however recommend listing this finding for a future follow-up assessment of the regulatory framework for securitisations in Russia.

2.3.6 Counterparty credit risk framework

Section grade	Compliant
Summary	For counterparty default risk, the CBR has implemented only the Current Exposure Method (CEM) and banks are not allowed to use other methods for capital adequacy purposes. Similarly, for Credit Value Adjustment, only the standardised method is implemented. For exposures to the default fund of central counterparties, only Method 2 has been implemented, making it more rigorous than the Basel Framework, which provides a choice between two different methods.

2.3.7 Market risk: the Standardised Measurement Method

Section grade	Compliant

Summary	The CBR's implementation of the market risk standardised approach is assessed as compliant with the Basel standard. Trading activity by Russian banks is relatively limited and simple in nature. During the course of the assessment, the CBR made various amendments and introduced missing capital requirements, including for commodity risk and gamma and vega risk for options, to align the domestic regulations with the Basel standard. In some areas the team also identified approaches where the CBR is more conservative than the Basel standard (Annex 9).

2.3.8 Market risk: Internal Models Approach

Section grade	NA
Summary	The CBR has not implemented the advanced approaches for market risk. As the advanced approaches for market risk are optional in the Basel standard, this has been scoped out from the assessment.

2.3.9 Operational risk: Basic Indicator Approach and the Standardised Approach

Section grade	Compliant
Summary	The team assesses the regulatory implementation of operational risk as compliant with the Basel standard. One finding was identified, which the team assesses as not material.
Basel paragraph no	Basel II paragraphs 645–648
Reference in domestic regulation	Regulation no 346-P
Findings	According to Basel paragraphs 645–648, banks should be encouraged to move along a spectrum of methodologies as they develop more sophisticated operational risk measurement systems and practices. In addition, internationally active banks and banks with significant operational risk exposures are generally expected to use an approach that is more sophisticated than the BIA. The CBR regulation, 346-P, does not offer other measurement methodologies other than the BIA. Consequently, Russian internationally active banks are subject to the simplest Basel methodology only and are not encouraged to move along the spectrum of methodologies.
Materiality	Non-material The team assesses the finding as not material in the light of the relatively traditional business model of Russian banks, and because the BIA is typically more conservative than the TSA. In addition, the CBR has expressed its intention to implement more advanced approaches for operational risk in due course. The team also considers that the Basel Committee is currently reviewing the operational risk framework.

2.3.10 Operational risk: Advanced Measurement Approaches

Section grade	NA
Summary	The CBR has not implemented the advanced measurement approach (AMA) for operational risk. As the AMA approach is optional in the Basel framework, this component has been removed from the scope of the RCAP assessment.

2.4 Pillar 2: Supervisory review process

Section grade	Compliant
Summary	Overall, the team considers the regulatory implementation to be compliant. In general, the team finds that the current Pillar 2 regulation is less prescriptive and specific than the Basel Pillar 2 standard. Additionally, the Pillar 2 regulation assigns some responsibilities in a general fashion to the banks, which should be specifically

	assigned to the board and senior management. Nevertheless, the team acknowledges that the implementation of Pillar 2 is ultimately more about supervision, supervisory practices and processes and less about certain minimum requirements laid down in regulation (the focus of RCAP).
Basel paragraph no	Basel II paragraphs 726–728
Reference in domestic regulation	Clauses 2.1–2.5; 3.5; Chapter 4; clause 5.5; Chapter 6, Chapter 1 of the annex of Ordinance no 3624-U
Findings	Basel paragraph 726 states that the bank management bears primary responsibility for ensuring that the bank has adequate capital to support its risks. Basel paragraph 728 sets out the responsibility of bank management in understanding the level and nature of risk being undertaken by the bank and how this risk relates to adequate capital levels. The CBR regulations assign to bank management the participation in the development, approval and implementation of ICAAPs, which is very important, but is different from requiring the assumption of responsibilities and understanding of the risks.
Materiality	Not material The team acknowledges that the implementation of Pillar 2 is ultimately more about supervision, supervisory practices and processes and less about certain minimum requirements laid down in regulation (the focus of RCAP). Therefore the team considers this a non-material finding.
Basel paragraph no	Basel II paragraph 738(ii)
Reference in domestic regulation	Clause 3.2 of Chapter 3, "Market risk" of the Annex to Ordinance no 3624-U Clause 5.1, 5.5 of Ordinance no 3624-U
Findings	The Basel stress test mentioned in this paragraph (738(ii)) refers to market risk VaR models. It should be imposed on banks that adopt VaR models as internal models, even if those models are used for the ICAAP only. The stress tests are much more demanding and intensive than the stress tests described in clauses 5.4 and 5.5 of Ordinance 3624-U.
Materiality	Not material The team considers that most points required in the stress test refer to types of transaction that are typically not relevant for Russian banks.
Basel paragraph no	Basel II – Supplemental Pillar 2 Guidance – paragraph 16
Reference in domestic regulation	Chapters 1–4, 6, 7 of Ordinance no 3624-U Article 11.1-1 of Banking Law, Regulation 2005-U "On the Assessment Of Economic Standing Of Banks" (Clauses 2, 3 and 4 of Annex 6).
Findings	Paragraph 16 of the Pillar 2 Guidance determines some responsibilities for the board and directors and senior management with regard to the (i) definition of risk appetite; (ii) elaboration of detailed policies that set prudential limits on the bank's activities which are firm-wide; (iii) having an understanding of risk exposures on a firm-wide basis; (iv) establishment of a risk management process not limited to credit, market and operational risk. In the domestic rules, the responsibilities are assigned more at the level of the "credit institution", rather than explicitly to the board of directors and to the senior management. At the same time, the domestic standard requires the results of limit control, reports on stress testing and on material risks to be reported to the board of directors on an annual or quarterly basis (clause 6.4 of Ordinance 3.624). The endorsement of strategies and procedures related to risk and capital management is in the competence of the board of directors (Law 395-1-FZ Article 11.1-1). The team finds those domestic requirements less specific and explicit than the Basel provision.
Materiality	Not material The team acknowledges that the implementation of Pillar 2 is ultimately more about supervision, supervisory practices and processes and less about certain detailed

	minimum requirements laid down in regulation (the focus of RCAP). From a substance point of view, the team judges that the more general implementation is not expected to have a material effect on Pillar 2 implementation.
Basel paragraph no	Basel II paragraph 777(i)–(xiii)
Reference in domestic regulation	Ordinance 3624-U
Findings	The Basel Framework sets out standards for counterparty credit risk management, which are applicable to all banks regardless of their size or the use of advanced models. The regulation was amended to reflect most of these requirements with a few exceptions. • Basel paragraph 777(v) and 777(vii): these requirements are applicable only to banks for which CCR is material. • Basel paragraph 777(v): the Russian regulations do not fully cover all requirements of this Basel provision. In particular, the daily reports should be prepared on a firm's exposures to CCR and must be reviewed by a senior management. • Basel paragraph 777(vii): the Basel Framework sets out detailed requirements for CCR measurement which are not explicitly covered in the current Russian regulation. • Basel paragraph 777(xi)–(xiii): the Basel Framework requirements are not applicable as Russian banks have not implemented the advance CCR management models.
Materiality	Not material The team acknowledges that supervisors need to apply a certain degree of proportionality regarding Pillar 2 requirements depending on how material certain risks are for banks. Also, the team considers that these findings are mostly qualitative in nature, and views them as typically not material in the context of the limited and simple trading activities of Russian banks.

2.5 Pillar 3: Market discipline

Section grade	Compliant
Summary	The team assesses the current regulatory implementation of Pillar 3 as compliant with the Basel standard. The key Pillar 3 disclosure requirements are set out in the Ordinance of the Bank of Russia no 3876-U dated 3 December 2015 for reporting on consolidated level and the Ordinance of the Bank of Russia no 3081-U dated 25 October 2013 for reporting on an individual level. During the assessment, the CBR issued the disclosure requirements for remuneration and IRB, as well as a considerable number of amendments and rectifications.
Basel paragraph no	Composition of capital disclosure requirements – paragraphs 1–38
Reference in domestic regulation	Ordinance no 3876-U; Ordinance no 3918-U; Ordinance no 3081-U
Findings	The Basel standard on the capital disclosure specifies that national authorities will give effect to the disclosure requirements set out in it by no later than 30 June 2013. During the assessment, the CBR issued the disclosure requirements with an effective implementation date of 1 January 2016.
Materiality	Not material The team considers that while delayed, the disclosure requirements are now in effect, making this finding no longer material.

2.6 Observations and other findings specific to implementation practices in Russia

The following observations highlight certain special features of the regulatory implementation of the Basel standards in Russia. These are presented for contextual and informational purposes. Observations are considered fully compliant with the Basel standard and do not have a bearing on the assessment outcome.

2.6.1 Scope of application

Basel paragraph no	Basel II paragraphs 20–23, 24–27
Reference in domestic regulation	Federal Law no 395-1 on Banks and Banking Activities
Observation	The Basel framework requires that the scope of application will include, on a fully consolidated basis, any holding company that is the parent entity within a banking group to ensure that it captures the risk of the whole banking group. The legal concept of a dedicated bank holding company does not exist in Russia and Russian legislation therefore does not empower the CBR to regulate and supervise the activities of such bank holding companies. Some Russian banks have parent holding companies, however, which typically are non-financial diversified groups.

2.6.2 Definition of capital

Basel paragraph no	Basel III paragraphs 52–53
Reference in domestic regulation	Paragraphs 2.1 and 2.2 of Regulation no 395-P Paragraph 2.1 of Ordinance no 509-P Articles 63, 67 and 102 of the Civil Code Articles 23, 28, 29, 32, 42, 43, 48, 64, 65 and 72–75 of the JSC Law Articles 18-20, 23, 28, 29 and 58 of the LLC Law Article 2 of the Federal Law on the Securities Market Items 3 and 4 Article 4 of Federal law no 173-FZ Items 1 and 3 Article 3.2 of Federal law no 451-FZ Item 2 Article 189.98 of Federal law of bankruptcy no127-FZ Item 1.2 Chapter 1 of Regulation of the CBR no 301-P Section 1 Chapter A of Regulation of the CBR no 385-P Item 5 and 6 Article 15 of the Federal Law on Banks and Banking Activity Item 17.2, 17.4 of the Instruction of the CBR no 135-I
Observation	CET1 capital includes preference shares that are exactly the same as common shares except for the fact that the preference shares do not have voting rights. Responding to sanctions on Russia, the government designed these instruments with the aim of strengthening the banking sector's capitalisation. The Russian government purchased these preference shares from the banks. As of 1 October 2015, these preference shares account for 4.95% of total CET1 capital. Included in CET1 capital are common share equivalents for non-joint stock companies. These non-joint stock companies are the smaller banks in the Russian banking industry. As of 1 October 2015, these non-joint stock companies accounted for 5% of the Russian banking sector's total assets.

2.6.3 Credit risk: Standardised Approach

Basel paragraph no	Basel II paragraphs 72–73: Claims secured by residential property
Reference in domestic regulation	Regulation no 139-I implements the Simplified Standardised Approach (Basel II paragraphs 15–16). Paragraph 2.3, Appendix 1 to Regulation no 139-I: codes 8734, 8735, 8736, 8737, 8738, 8739, 8751, 8806, 8833 Code 8734

	Code 8806
Observation	The team observed that Russian law includes certain restrictions on banks taking possession of mortgages in the case of borrower default. This is, for example, the case where households have under-age children. In discussions with banks, the team was informed that it may indeed be difficult and time-consuming for banks to seize collateral. The team notes that the Basel standard generally requires that supervisors should apply strict prudential criteria when risk-weighting claims secured by residential property, but that the Basel standard sets no specific guidance or criteria for the risks that the value of the collateral does not accurately reflect the costs associated with seizing the collateral – as well as the ability to sell it in distressed conditions. The team recognises that national practices may differ in this area. In this regard, the team would recommend that the Basel Committee reviews if further guidance may be needed regarding the risk-weighting of mortgages that may be difficult to repossess, to ensure prudence and consistency in approaches.

2.6.4 Credit risk: Internal Ratings-Based Approach

Basel paragraph no	
Reference in domestic regulation	Ordinance "On the Procedure for Obtaining Permits for the Use of Bank Credit Risk Management Methods and Credit Risk Measurement Models to Calculate the Bank's Capital Adequacy Ratios and on the Procedure for Assessing Their Quality no 3752-U"; issued on 6 August 2015, paragraph 1.
Observation	The IRB approach is aimed at the largest Russian banks: the regulation has set a minimum floor of RUB 500 billion in total assets for banks to qualify for the IRB permission.
Basel paragraph no	
Reference in domestic regulation	IRB regulation, paragraph 1.11
Observation	According to the Russian regulation, the IRB approach should be implemented for all relevant asset classes within three years after receiving the IRB permission.
Basel paragraph no	Basel II paragraph 227
Reference in domestic regulation	IRB regulation, paragraph 4.5
Observation	Under the foundation IRB (FIRB) approach, capital requirements for exposures in default are 0%. The Russian regulation is more conservative. It requires banks to hold capital against defaulted assets: 8% of exposure value net of provisions, similar to the standardised approach. The adopted approach is more conservative than Basel requirements.
Basel paragraph no	Basel II paragraph 229
Reference in domestic regulation	-
Observation	The constituents of the Russian Federation and municipal formations are treated as sovereigns under the Standardised Approach and as banks under the IRB approach. The CBR explained that this is done to ensure that these entities do not obtain a 0% risk weight under the IRB approach.
Basel paragraph no	Basel II paragraphs 231 and 232
Reference in domestic regulation	IRB regulation, paragraph 2.6
Observation	According to the Basel Framework, an exposure is categorised as a retail exposure if it meets a number of criteria, including that loans extended to small business cannot exceed EUR 1 million.

	The Russian regulation sets the respective limit at RUB 50 million, which is approximately USD 0.8 million as of 1 October 2015.
Basel paragraph no	Basel II paragraph 236
Reference in domestic regulation	IRB regulation, paragraph 2.8
Observation	According to the Basel Framework, several criteria must be satisfied for a sub-portfolio to be treated as a qualifying revolving retail exposure. One of the criteria is that the maximum exposure to a single individual in the sub-portfolio is EUR 100,000 or less. The Russian regulation sets the respective threshold at RUB 4 million which is approximately USD 60,000 as of 1 October 2015.
Basel paragraph no	Basel II paragraphs 250 and 251
Reference in domestic regulation	-
Observation	According to the Basel Framework, banks that meet the requirements for the estimation of risk parameters are able to use the foundation/advanced approach to corporate exposures to derive risk weights for all classes of specialised lending exposures except HVCRE. At national discretion, banks meeting the requirements for HVCRE exposure are able to use a foundation/advanced approach that is similar in all respects to the corporate approach, with the exception of a separate risk-weight function as described in paragraph 283. The supervisor has used the national discretion and allows banks to use the respective corporate approaches where banks meet the requirements for HVCRE exposures.
Basel paragraph no	Basel II paragraph 273
Reference in domestic regulation	IRB regulation, paragraph 4.3
Observation	According to the Basel Framework, under the IRB approach for corporate credits, banks will be permitted to separately distinguish exposures to SME borrowers (defined as corporate exposures where the reported sales for the consolidated group of which the firm is a part is less than EUR 50 million) from those to large firms. A firm-size adjustment (ie 0.04 x (1 – (S – 5) / 45)) is made to the corporate risk weight formula for exposures to SME borrowers. S is expressed as total annual sales in millions of euros with values of S falling in the range of equal to or less than EUR 50 million or greater than or equal to EUR 5 million. Reported sales of less than EUR 5 million will be treated as if they were equivalent to EUR 5 million for the purposes of the firm-size adjustment for SME borrowers. In the Russian regulation, the threshold for SME is set in accordance with Federal Law on small and medium enterprises. Under this law, the revenue of SME should not exceed RUB 100 billion. The correlation formula was calibrated to account for this revenue threshold (ie 0.04 x (1 – (S – 100) / 900)).
Basel paragraph no	Basel II paragraph 277 and 282
Reference in domestic regulation	IRB regulation, paragraph 4.6
Observation	For specialised lending, at national discretion, supervisors may allow banks to assign preferential risk weights of 50% to "strong" exposures, and 70% to "good" exposures, provided they have a remaining maturity of less than 2.5 years or the supervisor determines that banks' underwriting and other risk characteristics are substantially stronger than specified in the slotting criteria for the relevant supervisory risk category. For HVCRE, at national discretion, supervisors may allow banks to assign preferential risk weights of 70% to "strong" exposures, and 95% to "good" exposures, provided that they have a remaining maturity of less than 2.5 years or the supervisor determines that banks' underwriting and other risk characteristics are substantially stronger than specified in the slotting criteria for the relevant supervisory risk category.

	The supervisor has not used the national discretion. The supervisor has not assigned the preferential risk weights.
Basel paragraph no	Basel II paragraph 284(i–iii)
Reference in domestic regulation	-
Observation	The Basel framework sets out calculation of risk-weighted assets for exposures subject to double default. The double default framework is not implemented in the Russian regulation. This is a more conservative approach, as the capital requirements for positions eligible for the double default framework – eg exposures hedged by certain credit derivatives – would be higher than if the double default framework were applied.
Basel paragraph no	Basel II paragraph 509
Reference in domestic regulation	
Observation	According to the Basel Framework, eligible collateral can be restricted to situations where the lender has a first charge over the property. This is the case in the Russian regulation, which considers second lien or junior lien mortgages as unsecured.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr René van Wyk	South African Reserve Bank

Assessment Team members

Ms Thais Lungov	Central Bank of Brazil
Mr Grant McHendry	South African Reserve Bank
Mr Puneet Pancholy	Reserve Bank of India
Mr Anders Rydén	Sveriges Riksbank
Mr Vakhtang Sikharulishvili	National Bank of Georgia
Ms Ieva Snezhkova	Bank of England
Ms Jingchun Zhang	Hong Kong Monetary Authority

Supporting members

Mr Noel Padia	South African Reserve Bank
Mr Maarten Hendrikx	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team members

Karl Cordewener	Basel Committee Secretariat
Sungwoo Kim	Financial Supervisory Service of South Korea
Stefano de Polis	Bank of Italy
Heidi Richards	Australian Prudential Regulation Authority

Annex 2: Local regulations issued by Russian authorities for implementing Basel capital standards

Overview of issuance dates of important Russian capital rules

Table 4

Domestic regulations	Name of the document, version and date
Domestic regulations implementing Basel II and Basel II.5	*Note:* All regulations and their amendments issued by the CBR in 2015 can be found at: www.cbr.ru/publ/vestnik/vestnik-akts.xml?year=2015. Credit risk: • Simplified standardised approach; Instruction of the CBR no 139-I dated 3 December 2012 "On Statutory Ratios for Banks" • Amendment of the CBR no 3855-U dated 30 November 2015 "On Amending Instruction No. 139-I" • Regulation of the CBR no 483-P dated 6 August, 2015 "On calculation of credit risk based on internal ratings-based approach" (IRB Regulation) • Ordinance of the CBR no 3869-U dated 1 December 2015 "On Amending Regulation no 483-P" • Ordinance of the CBR no 3752-U dated 6 August, 2015 "On the Procedure for Obtaining Permits for the Use of Bank Credit Risk Management Methods and Credit Risk Measurement Models to Calculate the Bank's Capital Adequacy Ratios and on the Procedure for Assessing Their Quality" Market risk: • On calculating market risk capital charge: Regulation of the CBR no 511-P dated 3 December 2015 "On the Procedure for Credit Institutions to Calculate Market Risk". Regulation No. 511-P superseded previously effective Regulation of the CBR no 387-P since 1 January, 2016 • On foreign exchange open position limits: Instruction of the CBR no 124-I dated 15 July 2005 "On Setting Amounts (Limits) on Open Currency Positions, the Methodology for their Calculation and the Specifics of Supervision over their Compliance by Credit Institutions" Operational risk: • On Operational Risk Capital Charge: Regulation of the CBR no 346-P dated 3 November 2009 "On the Procedure for Calculating the Amount of Operational Risk" • Principles for the Sound Management of Operational Risk: Letter of the CBR no 69-T dated 16 May 2012 "On the Recommendations of the Basel Committee on Banking Supervision "Principles for the Sound Management of Operational Risk" • Amendment dated 18 November 2015 no 3850-U "On Amendments to Bank of Russia Regulation no 346-P" Pillar 2/ICAAP and SREP: • Letter of the CBR no 96-T dated 29 June 2011 "On Methodological Recommendations for Credit Institutions for the Internal Capital Adequacy Assessment Process" • Ordinance of the CBR no 3624-U dated 15 April 2015 "On the Requirements for the Risk and Capital Management System of a Credit Institution and a Banking Group" • Amendment to Ordinance no 3624-U (Ordinance of the CBR no 3878-U dated 3 December, 2015 "On the Amendments to CBR Ordinance no 3624-U dated 15 April 2015 "On the Requirements for the Risk and Capital Management System of a Credit Institution and a Banking Group") • Ordinance of the CBR no 3883-U dated 7 December 2015 "On the Assessment of Quality of Risk and Capital Management Framework and Capital Adequacy of Credit Institutions and Banking Groups performed by the Bank of Russia"

	Compensation: • Instruction of the CBR no 154-I dated 17 June 2014 "On the procedure for assessing remuneration systems of credit institutions and the procedure for submitting to credit institutions orders to eliminate violations identified in their remuneration systems" Pillar 3: • Ordinance of the CBR no 3081-U dated 25 October 2013 "On information disclosure by credit institutions about their activities" • Amendment: Ordinance of the CBR no 3879-U dated 3 December 2015 "On Amending Ordinance No 3081-U" • Ordinance of the CBR no 3876-U dated 03 December 2015 "On Forms, Procedure and Terms of Information Disclosure by Parent Credit Institutions on Accepted Risk, Risk Evaluation Procedures, and Risk and Capital Management Procedures" • Ordinance of the CBR no 3877-U dated 03 December 2015 on invalidating Ordinance of the CBR no 3080-U dated 25 October 2013 "On Forms, Procedure and Terms of Information Disclosure by Parent Credit Institutions on Accepted Risk, Risk Evaluation Procedures, and Risk and Capital Management Procedures"
Domestic regulations implementing Basel III	Capital adequacy: • On capital definition under Basel III Regulation: Regulation of the CBR no 395-P dated 28 December 2012 "On the Methodology for Determining the Amount of Own Funds (Capital) of Credit Institutions (Basel III)" • Amendment: Ordinance of the CBR no 3851-U dated 18 November 2015 "On Amending Regulation No. 395-P" • On mandatory prudential ratios for banks, incl. capital adequacy ratios under Basel III: Instruction of the CBR no 139-I dated 3 December 2012 "On Statutory Ratios for Banks" • Amendment: Ordinance of the CBR no 3855-U dated 30 November 2015 "On Amending Instruction No 139-I" • On capital, prudential ratios, and foreign exchange limits for banking groups: Regulation of the CBR no 509-P dated 3 December 2015 "On the Calculation of Own Funds (Capital), Statutory Ratios and Open Currency Positions (Limits) of Banking Groups" CVA: • Annex 8 to Instruction of the CBR no 139-I dated 3 December 2012 "On Statutory Ratios for Banks" Leverage ratio: • On methodology for calculating leverage ratio: Ordinance no 2332-U dated 12 November 2009 "On the List, Forms and Procedure of Compiling and Submitting of Reporting Forms of Credit Institutions to the Central Bank of the Russian Federation"; reporting form no 0409813 "Information on Required Ratios, Leverage Ratio and Liquidity Coverage Ratio (Published Form)" • Amendment: Ordinance no 3468-U dated 2 December 2014 "On Amending Ordinance no 2332-U" (leverage reporting requirements effective from 01.01.2015) Stress testing: • On methodological recommendations for recovery and resolution planning: Letter of the CBR no 193-T dated 29 December, 2012 "On Methodological Recommendations for Developing in Credit Institutions of the Financial Soundness Recovery Plans" • On methodological recommendations for ICAAP: Ordinance of the CBR no 3624-U dated 15 April 2015 "On the Requirements to the Systems of Risk Management and Capital of Credit Institutions and Banking Groups"; Letter of the CBR no 96-T dated 29 June 2011 "On Methodological Recommendations On Organization in Credit Institutions the Internal Capital Adequacy Assessment Procedures"

Hierarchy of Russian laws and regulatory instruments Table 5

Level of rules (in legal terms)	Type
Constitution of the Russian Federation (Article 75) (1993)	Law
Federal Law no 86-FZ on the Central Bank of the Russian Federation (the Bank of Russia) (2002)	Law
Federal Law no 395-1 on Banks and Banking Activities (1990)	Law
Regulations ("P") (various)	Regulation
Instruction ("I") (various)	Regulation
Ordinance ("U") (various)	Regulation
Letters, methodological guidelines and recommendations (various)	Non-regulatory (non-binding)

Annex 3: List of capital standards under the Basel framework used for the assessment

(i) *International Convergence of Capital Measurement and Capital Standards: A Revised Framework,* (Basel II), June 2006

(ii) *Enhancements to the Basel II framework*, July 2009

(iii) *Guidelines for computing capital for incremental risk in the trading book*, July 2009

(iv) "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital", Basel Committee press release, 13 January 2011

(v) *Revisions to the Basel II market risk framework: Updated as of 31 December 2010*, February 2011

(vi) *Basel III: A global regulatory framework for more resilient banks and banking systems*, December 2010 (revised June 2011)

(vii) *Pillar 3 disclosure requirements for remuneration*, July 2011

(viii) *Treatment of trade finance under the Basel capital framework*, October 2011

(ix) *Interpretive issues with respect to the revisions to the market risk framework*, November 2011

(x) *Basel III definition of capital – Frequently asked questions*, December 2011

(xi) *Composition of capital disclosure requirements: Rules text*, June 2012

(xii) *Capital requirements for bank exposures to central counterparties*, July 2012

(xiii) *Regulatory treatment of valuation adjustments to derivative liabilities: final rule issued by the Basel Committee*, July 2012

(xiv) *Basel III counterparty credit risk – Frequently asked questions*, November 2011, July 2012, November 2012

Annex 4: Details of the RCAP assessment process

A. Off-site evaluation

(i) Completion of a self-assessment questionnaire by the Russian authorities

(ii) Evaluation of the self-assessment by the RCAP Assessment Team

(iii) Independent comparison and evaluation of the domestic regulations issued by the Russian authorities with corresponding Basel III standards issued by the BCBS

(iv) Identification of observations

(v) Refinement of the list of observations based on clarifications provided by the Russian authorities

(vi) Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment

(vii) Forwarding of the list of observations to the Russian authorities

B. On-site assessment

(viii) Discussion of individual observations with the Russian authorities

(ix) Meeting with selected Russian banks and accounting firms

(x) Discussion with the Russian authorities and revision of findings to reflect additional information received

(xi) Assignment of component grades and overall grade

(xii) Submission of the detailed findings to the Russian authorities with grades

(xiii) Receipt of comments on the detailed findings from the Russian authorities

C. Review and finalisation of the RCAP report

(xiv) Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to the Russian authorities for comments

(xv) Review of the Russian authorities' comments by the RCAP Assessment Team

(xvi) Review of the draft report by the RCAP Review Team

(xvii) Reporting of findings to SIG by the Team Leader

(xviii) Review of the draft report by the Peer Review Board

(xix) Approval of the report by the Basel Committee and publication

Annex 5: List of rectifications by Russian authorities

The following amendments were made to the Russian regulation in December 2015.

Basel paragraph	Reference to Russian document and paragraph	Brief description of the correction
Definition of Capital		
Basel III paragraph 50	Ordinance no 3855-U	All minimum capital requirements (CET1 and total capital ratios previously higher than in Basel III) have been aligned with the Basel III levels.
Basel III paragraphs 54–56	Ordinance no 3851-U	Non-perpetual subordinated instruments issued after 1 January 2013 are not eligible for inclusion in AT1 capital (on a standalone level).
Basel III paragraphs 61, 73	Ordinance no 3851-U	The requirement to include excess/shortfall of total eligible provisions under the IRB approach in the calculation of capital was included in the regulation (on standalone level).
Basel III paragraph 62	Clauses 2.3 of the Annex to Bank of Russia Regulation no 509-P dated 3 December 2015	Surplus Common Equity Tier 1 of the subsidiary is calculated as the Common Equity Tier 1 of the subsidiary minus the lower of: (1) the minimum Common Equity Tier 1 requirement of the subsidiary plus the capital conservation buffer and (2) the portion of the consolidated minimum Common Equity Tier 1 requirement plus the capital conservation buffer that relates to the subsidiary.
Basel III paragraph 63	Clauses 3.2 of the Annex to Bank of Russia Regulation no 509-P dated 3 December 2015	Surplus Tier 1 of the subsidiary is calculated as the Tier 1 capital of the subsidiary minus the lower of: (1) the minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer and (2) the portion of the consolidated minimum Tier 1 requirement plus the capital conservation buffer that relates to the subsidiary.
Basel III paragraphs 64–65	Clauses 4.2 of the Annex to Bank of Russia Regulation no 509-P dated 3 December 2015	Surplus Total Capital of the subsidiary is calculated as the Total Capital of the subsidiary minus the lower of: (1) the minimum Total Capital requirement of the subsidiary plus the capital conservation buffer and (2) the portion of the consolidated minimum Total Capital requirement plus the capital conservation buffer that relates to the subsidiary.
Basel III paragraph 79	Ordinance no 3851-U	The requirement to deduct from capital reciprocal cross holdings of the capital of credit and financial institutions, applying the "corresponding deduction approach" was included in the regulations (on standalone level).
Basel III paragraphs 84–86	Ordinance no 3851-U	The requirement to deduct from capital investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the entity is an affiliate of the bank was included in the regulations (on standalone level).
30–34 Scope of application 35–36 Scope of application of Basel II	Clause 1.11, clause 2.4.5, paragraph 4 of the clause 3.5 of the CBR Regulation	The condition of the consolidation for regulatory purposes of the significant investments in insurance entities, including fully owned insurance subsidiaries as an alternative to the deduction treatment set out in paragraphs 84–89 of Basel III was added.

In accordance with FAQ to paragraphs 84–89 of the Basel III	no 509-P dated 3 December 2015	
Basel III paragraph 124	Ordinance no 3871-U	Ordinance of the CBR no 3871-U dated 1 December 2015 establishes the procedure for drawing up a capital conservation plan by credit institutions, parent credit institutions of the banking group, member credit institutions of the banking group for the purposes of compliance with the capital buffer (buffers) set by Instruction of the CBR no 139-I amended by Ordinance no 3855-U dated 30 November 2015, and the procedure of approval by the CBR of the capital conservation plan.
	Credit risk: Standardised Approach	
Basel II paragraphs 50–210	Ordinance no 3855-U	Risk weights for some assets have been aligned with the Basel requirements: • The risk weight for claims to sovereigns with ECA risk scores 7 and banks domiciled in these countries has been set at 150%; • The risk weight for claims to public sector entities denominated and funded in foreign currency has been set at 100%; • The risk weight for claims denominated in foreign currency and collateralised by debt securities issued by the Russian Federation and Russian PSEs is set at 100%; • The risk weight for claims to multinational development banks that are not included in Basel II into the zero-risk category has been set at 100%; • The risk weight for claims to natural monopolies has been set at 100%; • The risk weight for gold in transit has been set at 20%, for cheques – at 100%; • The risk weight of 1000% has been replaced with 1250%; • The risk weight for first-loss tranches of purchased securitisation exposures has been set at 1250%, for other tranches of securitisation exposures at 100%; • The minimum capital requirements have been set 4.5% of risk-weighted assets for Common Equity Tier 1 and at 8.0% for total capital. The capital requirements for credit risk have been adjusted to include: • The definition of regulatory retail portfolios eligible for the risk weight of 75%; • Specific requirements for currency mismatches for credit risk mitigants.
	Credit risk: IRB	
222	IRB Regulation, paragraph 2.14	The Basel framework expects that project finance transactions where repayment of the exposure depends primarily on a well-established, diversified, creditworthy, contractually obliged end user would be considered as secured exposures to that end user. The regulation has been amended to reflect this requirement.
234	IRB Regulation, paragraph 2.8	The Basel framework sets out a number criteria which should be met for an exposure to be treated as a qualifying revolving retail exposure, including requirement in (a) and (d). The regulation has been amended to reflect this requirement.

236	IRB Regulation, paragraph 2.9	The Basel framework sets out a number of criteria for an exposure to be treated as equity. The regulation has been amended to reflect this requirement.
243	IRB Regulation, paragraph 4.8	The Basel framework sets out a number of criteria for an exposure to be defined as eligible purchased receivable – corporate. In particular, for a bank to use the top-down approach, where there is a recourse to the seller, the bank must show that cash-flows from the purchased corporate receivables are the primary protection against default risk as determined by the rules in paras 365 and 368 and the bank meets eligibility criteria and operational requirements. The regulation has been amended to reflect this requirement.
259	IRB Regulation, paragraph 1.13	The Basel framework allows for immaterial asset classes or non-significant business units to be exempt from adopting the IRB approach. This exemption may not be applied at the particular loan level. The regulation has been amended to reflect this requirement.
261	IRB Regulation, paragraph 1.16	The Basel framework allows banks to move to the standardised approach from the IRB approach under extraordinary circumstances subject to the supervisor's approval. The regulation has been amended to reflect this requirement.
262	IRB Regulation, paragraph 1.14	According to the Basel framework, a bank should not move to the advanced approach for high volatility commercial real estate (HVCRE) subclass without also doing so for material interest-producing real estate exposures at the same time. The regulation has been amended to reflect this requirement.
303	IRB Regulation, paragraph 17.3	The Basel framework sets out several requirements for banks as to how to recognise eligible guarantees, including a requirement that the bank should take the risk-weight function appropriate to the type of guarantor. The regulation has been amended to reflect this requirement.
308	IRB Regulation, paragraph 9.2	According to the Basel Framework, the EAD on drawn amounts should not be less than the sum of (i) the amount by which a bank's regulatory capital would be reduced if the exposure were written-off fully, and (ii) any specific provisions and partial write-offs etc. The regulation has been amended to reflect this requirement.
332	IRB Regulation, paragraph 19.1	According to the Basel Framework, the PD or LGD estimates should be adjusted in a consistent manner to reflect the risk-reducing effects of guarantees and credit derivatives in support of individual obligation or a pool of exposures. The regulation has been amended to reflect this requirement.
334	IRB Regulation, paragraph 9.2	Similar to para 308 (but for retail), according to the Basel framework, the EAD on drawn amounts should not be less than the sum of (i) the amount by which a bank's regulatory capital would be reduced if the exposure were written-off fully, and (ii) any specific provisions and partial write-offs etc. The regulation has been amended to reflect this requirement.

364	IRB Regulation, paragraph 11.3	According to the Basel framework, for purchased retail receivables, the estimates for PD and LGD must be calculated on a standalone basis, without regard to any assumption of recourse or guarantee from seller or other parties. The regulation has been amended to reflect this requirement.
365	IRB Regulation, paragraph 4.8	According to the Basel Framework, for purchased corporate receivables, the estimated expected loss must be calculated for the receivables on a standalone basis without regard to any assumption of recourse or guarantees from the seller or other parties. Moreover, where banks decompose expected loss into its PD and LGD components, the advanced approach is not available for banks that use the foundation approach for corporate exposures. The regulation has been amended to reflect this requirement.
384–386	Regulation 395-P, paragraphs 2.2.14 and 3.1.10	The Basel framework requires banks to compare the total amount of eligible provisions with the total expected loss amount and make subsequent adjustments to the CET 1 and Tier 2 ratio. The regulation has been amended to reflect this requirement.
407	IRB Regulation, paragraph 12.6	According to the Basel framework, a bank must have a sufficient number of facility grades to avoid grouping facilities with widely varying LGDs into a single grade. The regulation has been amended to reflect this requirement.
413	IRB Regulation, paragraph 4.6	The Basel framework expects banks to demonstrate that their mapping process of internal grades into the slotting categories has resulted in an alignment of grades which is consistent with the preponderance of the characteristics in the respective supervisory category. The regulation has been amended to reflect this requirement.
414	IRB Regulation, paragraph 12.14	The Basel framework expects banks to use a longer than one-year time horizon in assigning ratings. The regulation has been amended to reflect this requirement.
415	IRB Regulation, paragraph 12.14	According to the Basel framework, a borrower's rating must represent the bank's assessment of the borrower's ability and willingness to contractually to perform despite adverse economic conditions or the occurrence of unexpected events. Alternatively, a bank should take into account borrower characteristics that are reflective of the borrower's vulnerability to adverse economic conditions or unexpected events etc. The regulation has been amended to reflect this requirement.
428	IRB Regulation, paragraph 12.12	The Basel framework requires banks to identify overrides and separately track their performance. The regulation has been amended to reflect this requirement.
430	IRB Regulation, paragraph 12.19	According to the Basel framework, banks must retain data on the PDs and realised default rates associated with rating grades and rating migration to track the predictive power of the borrower rating systems. The regulation has been amended to reflect this requirement.
438	IRB Regulation, paragraph 15.2	The Basel framework sets out a number of corporate governance requirements. In particular, senior management must inform the board of directors or a designated committee thereof of material changes or exceptions from established policies that will materially impact the operations of bank's rating system. The regulation has been amended to reflect this requirement.

441	IRB Regulation, paragraph 15.5	The Basel framework specifies areas of responsibility of credit risk control, which also include production and analysis of summary reports from bank's rating system, to include historical default data, grade migration analysis and monitoring trends in key rating criteria. The regulation has been amended to reflect this requirement.
448	IRB Regulation, paragraph 13.1	According to the Basel framework, where (internal) and external data are used, the bank must be able to demonstrate that its estimates are representative of long-run experience. The regulation has been amended to reflect this requirement.
450	IRB Regulation, paragraph 13.1	According to the Basel framework, the overall requirements for risk estimation should include that the population of exposures represented in the data used for estimation, and lending standards in use when the data were generated, and other relevant characteristics should be closely matched to or at least comparable with those of bank's exposures and standards. The bank must also demonstrate that the economic or market conditions that underlie the data are relevant to current and foreseeable conditions etc. The regulation has been amended to reflect this requirement.
451	IRB Regulation, paragraph 1.19	The Basel framework expects banks to apply a margin of conservatism to their estimates – PD, LGD and EAD. The regulation has been amended to reflect this requirement.
456	IRB Regulation, paragraphs 13.1 and 13.7	The Basel Framework sets out a requirement for banks to record actual defaults on IRB exposures using the reference default definition, and also use the reference definition for its estimation of PD, LGD and EAD. Where a bank uses external data that have a different definition of default, the bank has to make appropriate adjustments to achieve a broad equivalence with the reference definition. The regulation has been amended to reflect this requirement.
458	IRB Regulation, paragraph 13.5	According to the Basel framework, the bank must have written policies in respect of counting days past due, in particular in respect of re-ageing of the facilities and the granting of extensions, deferrals, renewals and rewrites to existing accounts. Furthermore, the framework sets out the minimum requirements to the re-ageing policy. The regulation has been amended to reflect this requirement.
468	IRB Regulation, paragraph 13.15	The Basel framework requires banks to assign LGD to each single facility while the Russian regulation required it at the rating grade level. The regulation has been amended to reflect this requirement.
470	IRB Regulation, paragraph 18.1	The Basel framework requires that banks establish internal requirements for collateral management, operational procedures, legal certainty and risk management process which are generally in line with those required under the standardised approach. The regulation has been amended to reflect this requirement.
475	IRB Regulation, paragraph 13.20	The Basel framework requires banks to assign EAD to each single facility while the Russian regulation required it at the rating grade level. The regulation has been amended to reflect this requirement.

476	IRB Regulation, paragraph 13.20	The Basel framework sets out criteria by which estimate and review EAD. The regulation has been amended to reflect this requirement.
477	IRB Regulation, paragraph 13.20	Banks should have specific strategies and policies in respect of monitoring and payment accounting. Banks must have adequate systems and procedures in place to monitor facility amounts etc. The regulation has been amended to reflect this requirement.
481	IRB Regulation, paragraphs 17.1 and 19.2	The Basel framework requires banks to have policies and strategies in respect of account monitoring, payment processing, and technical defaults events, as well as operational systems and procedures to monitor facility amounts on a daily basis. The regulation has been amended to reflect this requirement.
490	IRB Regulation, paragraph 17.1	The Basel framework sets out minimum requirements to assess effect of guarantees for FIRB banks. The regulation has been amended to reflect most of this requirement.
495	IRB Regulation, paragraph 13.24	The Basel Framework sets out a number of requirements for banks to monitor both the quality of the receivables and the financial conditions of the seller and servicer, including a requirement for banks to have timely and sufficiently detailed reports on receivables ageing and dilutions. The regulation has been amended to reflect this requirement.
497	IRB Regulation, paragraph 13.26	The Basel Framework sets out requirements for bank policies and procedures governing the control of receivables, credit, and cash, including a requirement that internal systems must ensure that funds are advanced only against specified collateral and documentation. The regulation has been amended to reflect this requirement.
498	IRB Regulation, paragraph 13.26	The Basel Framework requires banks to have effective internal process for assessing compliance with all critical policies and procedures, including verification of the separation of duties between the assessment of the seller/servicer and the assessment of the obligor as well as between the assessment of the seller/servicer and the field audit of the seller/servicer. The regulation has been amended to reflect this requirement.
499	IRB Regulation, paragraph 13.26	The Basel framework expects banks to have an effective internal process for assessing back office operation compliance with all critical policies and procedures. The regulation has been amended to reflect this requirement.
508	IRB Regulation, paragraph 16.2	With regards to supervisory LGD and EAD estimates and the recognition of additional collateral, the Basel framework excludes the specialised lending asset class from recognition as collateral for corporate exposures. The regulation has been amended to reflect this requirement.
509	IRB Regulation, paragraph 16.3	The Basel framework sets operational requirements for eligible commercial real estate and residential real estate. The regulation has been amended to reflect this requirement.

510	IRB Regulation, paragraph 16.3	The Basel framework sets out additional collateral management requirements, which include among others that the bank must appropriately monitor the risk of environmental liability arising in respect of the collateral. In addition, the bank must monitor on an ongoing basis the extent of any permissible prior claims on the property. The regulation has been amended to reflect this requirement.
518	IRB Regulation, paragraph 16.6	The Basel Framework requires banks to maintain a continuous monitoring process of financial collateral that is recognised as a risk mitigant. The regulation has been amended to reflect this requirement.
523	IRB Regulation, paragraph 3.5	The Basel framework sets out requirements for recognition of leasing. Based on the CBR data, the leasing operations are usually carried out by specialised subsidiaries of banks, and residual risk arising from leasing operations of Russian banks is not significant. The regulation has been amended to reflect most of the requirement. Please see the detailed assessment part of the report for further detail.
537	Pillar 3 regulation (Annex 2)	According to the Basel standard, in order to be eligible for the IRB approach banks must meet the disclosure requirements set out in Pillar 3. The Russian regulation has been amended and reflects most requirements.
Credit risk: Securitisation Framework		
Basel II paragraphs 538–643	Ordinance no 3855-U	The CBR implemented a new framework for securitisation exposures. The standardised risk weight for securitisation exposures is 100% and a risk weight of 1250% for first-loss tranches. The Russian regulation has been aligned with the Basel requirements set out in Annex 11 to Basel II, para 66.
	Market risk	
Basel 2.5 para 712(iii)–712(viii), Basel III para 90	Regulation no 511-P paragraph 2.3 and paragraph 2.5	The market risk regulation has been amended to include the capital requirements for positions covered under the securitisation framework.
Basel II paras 707, 708, 713–718	Regulation no 511-P paragraphs 1.1, 1.4, 2.1, 2.8	The capital charge for positions hedged by credit derivatives has been introduced.
Basel II para 718 (iv)	Regulation no 511-P paragraph 2.9.3, Table 1 of Appendix	The market risk regulation has been amended to include a special risk weights for bonds with a coupon of less than 3% for the purpose of general market risk calculation.
Basel II para 718(i)–718(viii)	Regulation no 511-P paragraph 2.9.10, Table 2 of Appendix	The disallowance factor between zones 1 and 3 has been reduced from 150% to 100% to align it with the Basel II requirements.
Basel II para 718(Lix)–718(Lxii)	Regulation no 511-P paragraphs 1.7, 1.9, 2.10, 3.5, 4.8	The market risk rules have been amended to include capital requirements to cover gamma and vega risks for options under the delta-plus method.

Basel II 718(xLiii)–718(xLvii)	Regulation no 511-P paragraphs 1.1, 1.3, 1.4 and Chapter 4,	The market risk rules have been amended to include capital requirements for commodities risk.
Basel 2.5 718 (cx)–718 (cxii)	Regulation no 511-P paragraph 1.8	The market risk rules have been amended to include the adjustment to the valuation of less liquid positions.
Basel II para 55 and 710	Regulation no 511-P paragraphs 2.3, 2.4	Risk weights for calculating capital charges for specific interest rate risk of bonds issued or guaranteed by the Russian Federation and the CBR denominated and (or) funded in foreign currencies and of bonds issued or guaranteed by the governments or central banks of some countries with ECA risk score equal to 7 have been adjusted to reflect the current ECA scores.
Operational risk		
Basel II paragraph 644	Ordinance no 3878-U, paragraphs 1.4; 1.10.7	The definition of legal risk has been included in the definition of operational risk.
649–651	Regulation 346-P, paragraph 2 (Ordinance 3850-U, paragraph 1.2)	The regulation adjusted to specify that the number of years used in the calculation of gross income may not exceed three.
	Pillar 2	
Basel II paragraph 720	Ordinance no 3878-U, para 1.8; Ordinance no 3873-U; Ordinance no 3883-U, chapters 1–4, Annexes 2-4, paragraph 3.2.3 and 3.3 (paragraphs dedicated to IRRBB and concentration risks) of Annex 2.	The ICAAP framework was amended to include requirements for internal capital adequacy assessment for interest rate risk in the banking book and concentration risk. Under the SREP framework, the CBR assesses whether credit institutions have adequate capital to support all risks including interest rate risk in the banking book, concentration risk and other Pillar 2 risks.
Basel II paragraph 722	Ordinance no 3883-U	Ordinance No. 3883-U establishes a procedure for CBR to assess the quality of risk management and capital management systems and capital adequacy of credit institutions and banking groups (the SREP framework). The scope of assessment of risk management and capital management system includes the system's conformity with the character and scale of operations performed by a credit institution (a banking group), the level and combination of risks taken, and the adequacy of the risk and capital assessment methodology.
Basel II paragraph 724	Ordinance no 3873-U; Ordinance no 3878-U,	The ICAAP framework was amended to include the requirement that the risk and capital management system of a credit institution (a banking group) shall encompass the factors of credit risk, market risk, and operational risk

	paragraphs 1.1, 1.4, 1.5, 1.7, 1.8; Ordinance no 3883-U, assessment of question 3 of the Annex 2	which are not taken into account in full as part of the CBR's methodology used for defining capital requirements under Pillar 1, as well as other material risks, such as interest rate risk in the banking book and concentration risk.
Basel II paragraphs 753–755	Ordinance no 3883-U, Clauses 1.7, 2.1, 2.5 of the Annex 1, paragraphs 3.2.3, 3.3 of the Annex 2.	Under the SREP framework, the CBR assesses whether a credit institution applying the IRB approach to calculating capital adequacy ratios meets the conditions of the permission granted by the Bank of Russia to apply the IRB approach on an ongoing basis.
Basel II paragraphs 757–758	Ordinance no 3883-U, Chapters 3 and 4, Annex 2 and 3.	The CBR requires that the quality assessment of a credit institution's (a banking group's) ICAAP is based on the assessment of the ICAAP framework, risk management system, capital management procedures, and the credit institution's (banking group's) ICAAP results. The ICAAP assessment shall be performed by the CBR on an annual basis. The supervisory assessment of the credit institution's capital adequacy results from the bank's ICAAP quality assessment taking into account the supervisory assessment of its economic position in accordance with the CBR Ordinance No. 2005-U (the CBR's RAS methodology). The ICAAP results assessment shows whether capital is adequate to cover the risks that are not fully captured under Pillar 1 and other material risks (Pillar 2 risks) taken by the credit institution, in conjunction with stress tests results and the credit institution's development strategy. Based on the assessment of capital adequacy, the CBR may set individual minimum capital adequacy ratios by imposing add-ons for the credit institution (banking group).
Basel II paragraphs 763–764	Ordinance no 3873-U; Ordinance no 3878-U, clause 1.8; Ordinance no 3883-U, Annex 3 (question 2, clauses 3.2, 3.4 of the question 3), Annex 4	The CBR amended the regulation to include the requirement for self-assessment of capital adequacy for interest rate risk in the banking book.
Basel II paragraph 765	Ordinance no 3878-U, clause 1.10.3; Ordinance no 3883-U, Clause 3.2.3, para dedicated to the credit risk assessment and clause 3.3 of the question 3 of the Annex 2.	The requirements for credit risk management procedures were amended to include the requirement for a credit institution applying quantitative credit risk assessment models to conduct credit risk stress testing and the use of stress-testing results to measure credit risk under the IRB approach.
Basel II paragraph 766	Ordinance no 3883-U, Clause 3.2.3, paragraph dedicated to the credit	The CBR introduced the requirement for banks using the IRB approach to use a consistent definition of default.

	risk assessment and clause 3.3 of the question 3.	
Basel II paragraphs 767–769	Ordinance no 3878-U, Clause 1.4; 1.10.1; 1.10.4 Ordinance no 3883-U, Clause 3.2.3, paragraph dedicated to the credit risk assessment and clause 3.3 of the question 3 of the Annex 2.	Credit institutions are required to have efficient processes to identify and manage residual risk.
Basel II paragraph 777(i)–(xiii)	Ordinance no 3878-U, Clause 1.10.1. Ordinance no 3883-U, Clause 3.2.3, para dedicated to the credit risk assessment and clause 3.3 of question 3 of Annex 2.	The requirements have been introduced for CCR risk management policies, processes and systems as well as measurement procedures applicable for this risk.
Basel II Supplemental Pillar 2 Guidance – paragraph 63	Ordinance no 3878-U, Clause 1.10.6	Credit institutions are required to use alternative methods when primary inputs become unreliable.
	Pillar 3	
818–819	Clause 3 of Ordinance no 3876-U dated 3 December 2015 (hereinafter – Ordinance no 3876-U) Clause 1.5.6 of Ordinance no 3876-U	The frequency of disclosure has been changed from semiannual to quarterly. The requirement has been added to indicate in the disclosed information on the banking group the information considered commercial or confidential that is not subject to full disclosure.
Table 1 (scope of application)	The clause 1.4.1 and 1.4.2 of the Ordinance no 3876-U	The regulation was amended to include the requirement for a credit institution to disclose the differences in the scope of consolidation for accounting and regulatory purposes and any restrictions on transfer of funds or regulatory capital within the group have been added on the consolidated level.
824	Clause 1.5 of the Ordinance no 3876-U	Qualitative disclosure requirements for each separate risk type have been added at the top consolidated level of the banking group.

Table 2	Clause 1.6.1.1 of the Ordinance no 3876-U, the clause 5.1.26 of the Ordinance no 3081-U dated 25 October 2013 (on edition 3879-U dated 3 December 2015) (hereinafter Ordinance no 3879-U), Ordinance no 2332-U dated 12 November 2009 (hereinafter Ordinance no 2332-U) (Form 0409808)	The requirements to disclose information on the amount and main elements of the capital of a credit institution (banking group), and on the main terms and conditions of all capital instruments of a bank (banking group) have been added at the solo and consolidated levels.
Table 3	Clause 1.6.1.2 of the Ordinance no 3876-U, the clause 5.3 of the Annex to the Ordinance no 3879-U, Ordinance no 2332-U (form 0409808)	The requirements to disclose information on the bank's (banking group's) capital adequacy by risk type (credit risk, operational risk, market risk) have been added at the solo and consolidated levels.
825, Table 4	Clause 1.6.2.1 of the Ordinance no 3876-U, Clause 6.1.1. of the Annex to the Ordinance no 3879-U	General disclosure requirement with respect to credit risk, including definitions of past due and impaired loans (for accounting purposes); description of approaches to building specific and general provisions and total gross credit risk exposures, plus average gross exposure over a period broken down by major types of credit exposure have been added at the solo and consolidated levels. Requirements have been added to disclose overall exposure volume broken down by principal instrument (outstanding loans, correspondent account balances, investments in securities, contingent credit obligations, derivatives and others) as of the reporting date and on average over the reporting period.
Table 5	Clause 1.2 of the amendments to the 3876-U. Clause 1.6.2.1 of the Ordinance no 3876-U, the clause 6.1.1.1 of Ordinance no 3789-U	The following disclosure requirements have been added at the solo and consolidated levels: names of ECAIs and ECAs used plus reasons for any changes; exposure amounts after risk mitigation subject to the standardised approach, amount of a bank's exposures (rated and unrated) in each risk bucket as well as those that are deducted, for portfolios subject to the supervisory slotting risk weights in the IRB approach.
826, Table 6	The clause 1.6.2.1 of the Ordinance no 3876-U, Clause 6.1.1.1 of the Annex to Ordinance no 3879-U	Disclosures requirements for portfolios subject to the IRB approach have been added at the consolidated and solo levels.

Table 7	Clause 1.6.2.1 of Ordinance no 3876-U. Clause 6.1.1.1 of the Annex to Ordinance no 3879-U	Requirements to disclose information based on the IRB approach have been added at the solo and consolidated levels.
Table 8	Clause 1.6.2.2 of Ordinance no 3876-U, the clause 6.1.1.2 of the Annex to Ordinance no 3879-U	Qualitative and quantitative disclosures for exposures to counterparty credit risk have been added at the consolidated and solo level.
Table 9	Clause 1.6.2.3 of the Regulation no 3876-U, The clause 1.2 of the amendments to 3876-U, Clause 7 of the Annex to Ordinance no 3879-U	Qualitative and quantitative disclosures for securitisation exposures (separately for the trading and the banking book) have been added at the solo and consolidated levels.
Table 10	Clause 1.6.2.4 of the Regulation no 3876-U, Clause 6.1.2 of the Annex to Ordinance no 3879-U	Requirements to disclose capital requirements for commodity risk were added at the solo and consolidated level.
Table 13	Clause 1.6.2.5 of Regulation no 3876-U, Clause 1.2 of Ordinance no 3918-U, Clause 6.1.5 of the Annex to Ordinance no 3879-U	Qualitative and quantitative disclosures for equity exposures in the banking book have been added at the solo and consolidated levels.
Table 14	Clause 1.6.2.6 of the Ordinance no 3876-U	Qualitative and quantitative disclosures for interest rate risk in the banking book have been added at the consolidated level.
Disclosure requirements for remuneration	Clause 1.7 of the Ordinance no 3876-U, Clause 1.3 of the Ordinance no 3918-U, Clauses 2; 10 of the Annex to Ordinance no 3879-U	Disclosure requirements for remunerations have been added at the solo and consolidated levels. The definition of senior management and other risk takers and on key disclosure on remuneration have been added.

Liquidity coverage ratio disclosure standards clause 13 Section 2 "Disclosure requirements"	Clause 5.4 of the Annex to Ordinance no 3081-U. Clause 1.6.2.9 of the Ordinance no 3876-U and Paragraph 17 of Clause 1.2 of Ordinance no 3918-U)	The LCR disclosure requirements have been amended to include the information on number of quarterly data points used in calculating the average figures of LCR.
	Disclosure requirements for capital	
21	Clause 1.6.1 of Ordinance no 3876-U, Annex 2 of Ordinance no 3876-U, Clause 5.3 of the Annex to Ordinance no 3879-U, Ordinance no 2332-U (Form 0409808)	Disclosure requirements for the supplementary information have been added with reference to the reporting form with the credit institution's balance sheet data.
27-30	Clause 1.6.1 of Ordinance no 3876-U, Annex 2 to Ordinance no 3876-U, Clauses 1.1; 1.3; 1.4 of Ordinance no 3879-U, Ordinance no 2332-U (Form 0409808)	The requirements to disclose the full information on a permanent basis on terms and conditions of capital instruments included in a credit institution's (banking group's) capital have been added at the solo and consolidated levels.
31-33	Clauses 1.6.1.4, 3, 6 of the Ordinance no 3876-U, Annex 2 to Ordinance no 3876-U, Clauses 1.1, 1.3, 1.4 of the Ordinance 3879-U, the clause 5.3 of the Annex to Ordinance no 3879-U, Ordinance no 2332-U (Form 0409808)	The following requirements about the composition of capital were added at the solo and consolidated levels: the disclosure of ratios involving components of regulatory capital shall be accompanied with a comprehensive explanation of how these ratios are calculated; the requirement to disclose full terms and conditions of all instruments included in the regulatory capital on the credit institution's (banking group's) websites.
Table in paragraph 11, Pillar 3 for remuneration	Ordinance no 3876-U, Clause 1.7; Ordinance no 3879-U, item 10 of the Annex	Several missing items were included in disclosure requirements for remunerations.

Basel III: A global regulatory framework for more resilient banks and banking systems – paragraph 124	Ordinance no 3871-U	The regulation sets out the procedure for preparing capital conservation plan by credit institutions for the purposes of compliance with the capital buffers and the approval procedure of the capital conservation plan by the CBR.

Annex 6: Assessment of bindingness of regulatory documents

The following table summarises the assessment of the seven criteria used by the Assessment Team to determine the eligibility of Russian regulatory documents. The Assessment Team concluded that the regulatory instruments issued and used by the CBR as set out in Table 4 in Annex 2 are eligible for the RCAP assessment.

Criterion	Assessment
(1) The instruments used are part of a well-defined, clear and transparent hierarchy of legal and regulatory framework.	Enactments ("normative acts") of the CBR are part of the Russian legal and regulatory framework and issued when the CBR is authorised by federal law. Under Article 7 of Federal Law no 86-FZ "On the Central Bank of the Russian Federation (the Central Bank of Russia)" and other federal laws the CBR issues enactments in form of ordinances, regulations and instructions. All these types of CBR enactment are equally binding. The CBR also issues letters (a form of non-binding recommendation).
(2) They are public and easily accessible	Enactments and letters (recommendations) are public and easily accessible (they are published in the "Bank of Russia Bulletin" and on the CBR website). Enactments of the CBR become effective 10 days after their official publication in the "Bank of Russia Bulletin" unless the Board of Directors of the CBR decides otherwise. Enactments cannot have retroactive effect. The CBR shall officially announce the forthcoming change in prudential ratios and their methodology not later than one month before putting them into force.
(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.	Enactments of the CBR are binding for authorities, legal entities and individuals (Article 7 of Federal Law no 86-FZ). Letters/recommendations are non-binding.
(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.	Enactments of the CBR may be appealed against in the same procedure as for enactments of the federal authorities (Article 7 of Federal Law no 86-FZ). The court rejects the application when it avows that the enactment under dispute does not contradict a federal law or another enactment of a greater legal force (Article 253 of the Russian Federation Code of Procedure).
(5) Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	Under Article 74 of Federal Law no 86-FZ the CBR is authorised to take measures in case of non-compliance of the credit institution with federal laws and enactments of the CBR.
(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.	Under Article 72 of the Federal law no 86-FZ the CBR takes into account best practice when it issues methodology for capital and prudential ratios.
(7) The substance of the instrument is expected to remain in force for the foreseeable future	Enactments of the CBR shall normally be registered with the Ministry of Justice. Enactments are in force till they are amended or repealed unless the time they came in force had been fixed at the time of their adoption.

Annex 7: Key financial indicators of Russian banking system

Data on a standalone basis as of 1 October 2015

Table 6

Size of banking sector (RUB billions)	
Total assets (including off-balance sheet)[8] of all banks[9] operating in the jurisdiction	80 688
Total assets (including off-balance sheet) of all domestic systemically important banks (D-SIB)[10]	51 136
Total assets (including off-balance sheet) of locally incorporated banks to which capital standards under Basel framework are applied	80 688
Number of banks	
Number of banks operating in Russia	714
Number of Global Systemically Important Banks (G-SIBs)	0
Number of Domestic Systemically Important Banks (D-SIBs)[11]	10
Number of banks required to implement Basel standards (according to domestic rules)	714
Capital standards under the Basel framework	
Number of banks required to implement Basel equivalent standards	714
Use of advanced approaches by banks	0
Capital adequacy (systemically important banks) (RUB billions; per cent):	
Total capital	5 604
Total Tier 1 capital	3 995
Total CET1 capital	3 952
Total risk-weighted assets	42 161
RWAs for credit risk (percent of total RWAs)[12]	87.1
RWAs for market risk (percent of total RWAs)	4.4
RWAs for operational risk (percent of total RWAs)	8.5
Total off-balance sheet bank assets[13]	3 462
Capital Adequacy Ratio (weighted average)	13.3
Tier 1 Ratio (weighted average)	9.5
CET1 Ratio (weighted average)	9.3

Source: CBR.

[8] The measure of assets including off-balance sheet positions is the denominator of the Basel leverage ratio.

[9] Banks only, non-banking credit institutions are not included.

[10] Defined based on criteria of international activity.

[11] Defined based on criteria of international activity.

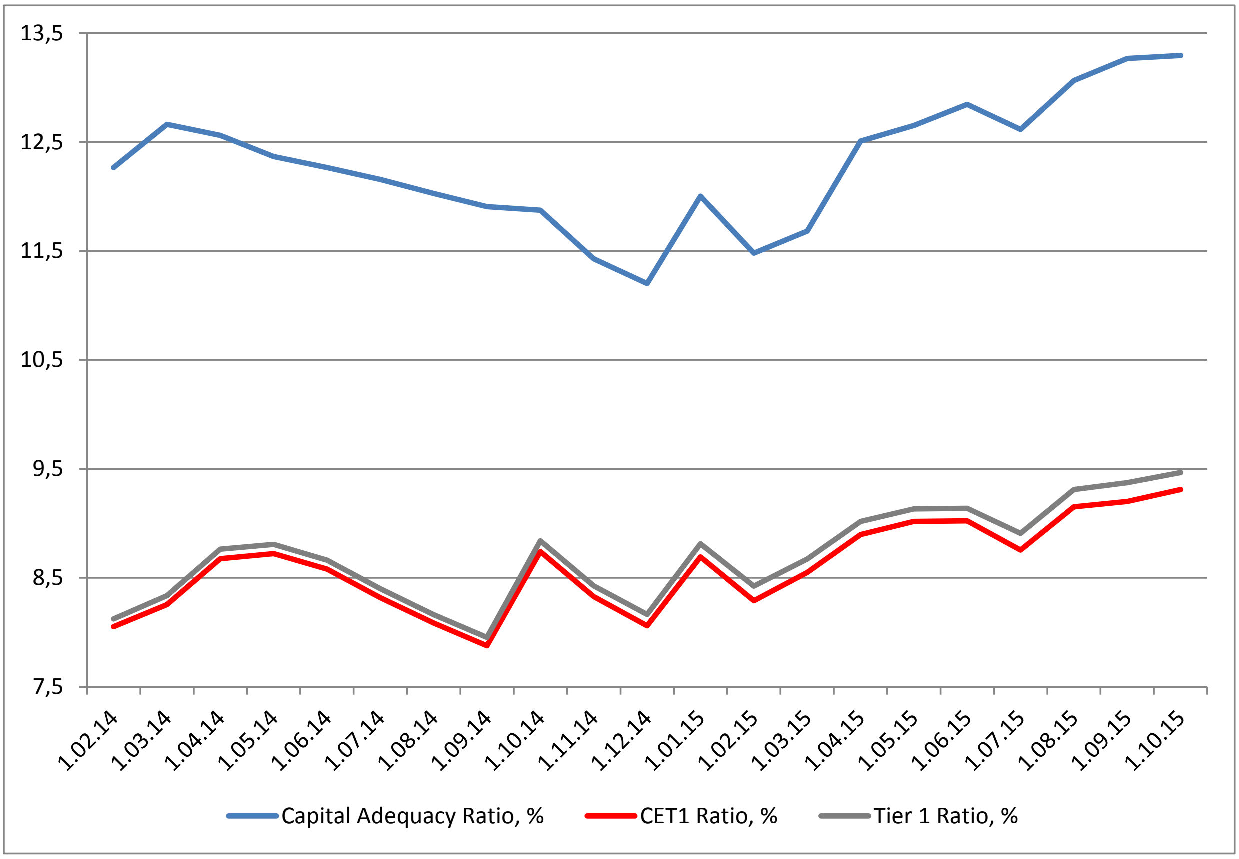
[12] Including counterparty credit risk and CVA (the latter is less than 2% of RWA as of 1 October 2015).

[13] The components of counterparty credit risk of derivatives and off-balance sheet positions included in the denominator of the total capital adequacy ratio.

Evolution of capital ratios of Russian systemically important banks

Weighted average, in percent

Graph 1

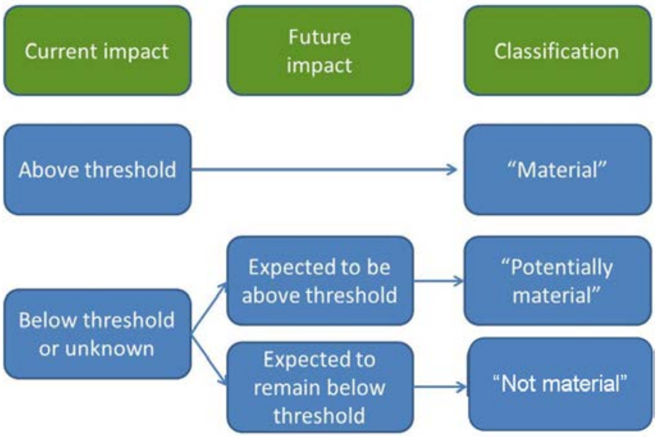


Source: CBR.

Annex 8: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings. As per the RCAP assessment methodology, for the assessment of materiality a distinction is made between quantifiable and non-quantifiable findings. For quantifiable gaps, the materiality assessment is based on data where available. For non-quantifiable gaps, the team relies on expert judgment only. Following this approach, an attempt was made to determine whether findings are "not material", "material" or "potentially material". Following the amendments published in December 2015 by the CBR no material or potential material findings remain.

Classification of quantifiable gaps — Graph 2



Number of gaps/differences by component — Table 7

Component	Non-material	Material	Potentially material
Scope of application	0	0	0
Transitional arrangements	2	0	0
Definition of capital	1	0	0
Capital buffers	0	0	0
Pillar 1			
Minimum capital requirements (general)	0	0	0
CR: Standardised Approach	1	0	0
CR: IRB	4	0	0
CR: Securitisation	1	0	0
Counterparty credit risk	0	0	0
MR: Standardised Approach	0	0	0
MR: Internal Models	-	-	-
OR: SA/BIA	1	0	0
OR: AMA	-	-	-
Pillar 2	4	0	0
Pillar 3	1	0	0

Note: materiality is defined based on quantitative benchmark thresholds (for the quantifiable gaps) and expert judgment (for the non-quantifiable gaps). See Section 2 with the detailed assessment findings for further information.

RCAP sample of banks

The following Russian banks were selected for materiality testing of the quantifiable deviations. Together these banks hold about 60% of the total assets of the Russian banking system.[14] The sample includes Russia's internationally active banks, and is a fair representation of the various types of banks operating in Russia. The basis of materiality assessment is the impact on the reported capital ratio (CET1, Tier 1 or Total capital ratio) and RWA of the banks constituting the sample agreed between the Assessment Team and the assessed jurisdiction.

Banking group	Share of the banking groups' assets in total Russian banking sector assets as of 1 October 2015
1. Sberbank	28.8%
2. VTB Group	16.2%
3. Gazprombank	7.0%
4. Otkritie	6.5%
5. Alpha Bank	2.7%
Total	61.2%

Note: data are based on banks' asset size on a standalone basis, but including domestically incorporated banking subsidiaries. The banking sector is defined as banks only; non-banking credit institutions are not included.

14 For this purpose, banking assets include both on-balance sheet and off-balance sheet assets (the measure of assets including off-balance sheet positions is the denominator of the Basel leverage ratio).

Annex 9: Areas where Russian rules are stricter than the Basel standards

In several places, the Russian authorities have adopted a stricter approach than the minimum standards prescribed by the Basel. The following list provides an overview of these areas. It should be noted that these areas have not been taken into account as mitigants for the overall assessment of compliance.

Definition of capital and transitional arrangements

1. Russian regulations (Regulation no 395-P) do not allow general provisions to be recognised as Tier 2 capital, as no such provisions are allowed by the regulator (paragraph 60).
2. Russian regulations (Regulation no 395-P) use a wider definition of indirect holdings of capital instruments. The loan used by the borrower to invest in capital of the banking, financial and insurance entities that are outside the scope of regulatory consolidation is treated as if the bank itself had invested in the capital of the financial entity (paragraphs 80–86).
3. The capital floor is implemented on a permanent basis. The capital floor is based on the RWAs that the bank would have held had it been on the Standardised Approach for credit risk. In addition, general provisions are not deducted from the capital floor.

Credit risk: Standardised Approach

1. Claims on securities firms (paragraph 65):

   Security firms are treated as corporates and claims on them are risk-weighted 100%.

   Higher risk weights (110% or 150%) may be applied depending on the terms of a particular claim.
2. Claims included in the regulatory retail portfolios (paragraphs 69–71):

   The 75% risk weight is not applied on individual borrowers.

   Consumer loans are risk-weighted ranging from 100% to 600%
3. Claims secured by residential property (paragraphs 72–73):

   A 35% risk weight is applied when claims do not exceed RUB 50 million if the following requirements are met: (i) the mortgage is registered in the Unified State Register of Property Rights; (ii) the loan-to-value ratio is no more than 50% (at the moment of granting the loan); (iii) the ratio of the total annual borrower's income (including that of his spouse and adult children) to the total annual debt service (principal and interest) ratio is no less than 3; and, (iv) the mortgage property is insured to the amount no less than the value of mortgage obligation.
4. Past due loans (paragraph 75):

   Under the Basel standard, a risk weight of 150% is applied to loans past due for more than 90 days with loan loss provisions less than 20% of the outstanding.

   In Russia, the minimum loan loss provisioning requirement for loans past due for more than 90 days is 21%, which is more rigorous than the risk weight of 150%.
5. Credit risk mitigation (paragraphs 109–118): netting of loans and deposits with the same counterparty is not allowed.

6. Eligible financial collateral (paragraphs 145–146):

   The following collateral instruments are not eligible for recognition under simple approach: debt securities issued by other legal entities irrespective of their ratings, equities, UCITS/mutual funds.

   Under the comprehensive approach: equities which are not included in a main stock index, UCITS/mutual funds.

7. Collateral, own estimates for haircuts (paragraphs 147–155):

   The standard supervisory haircut on main index equities (including convertible bonds) and other equities listed on a recognised exchange is 50% instead 15% and 25% respectively.

   UCITS/mutual funds, other equities listed on a recognised exchange and securitisations are not taken for eligible collateral. A 100% haircut is applied to assets or collateral not listed in paragraph 2.6.2 of Regulation no 139-I.

8. On-balance sheet netting (paragraph 188): Netting of loans and deposits is not allowed.

9. Central counterparty: A higher risk weight of 5% is applied instead of 2% for trade exposures to central counterparties (codes 8846/8847 of paragraph 2.3, Appendix 1 to Regulation no 139-I).

Credit risk: Internal Ratings-Based Approach

1. The PD/LGD approach and internal models method for equity exposures as well as the internal ratings-based approach for securitisation exposures have not been implemented.

2. Treatment of defaulted assets: under the foundation IRB (FIRB) approach (paragraph 272), the capital requirements for defaulted assets are 0%. However, the Russian regulation requires banks to hold capital against defaulted assets applying an approach similar to the standardised approach whereby capital requirements for exposures in default are calculated as 8% of an exposure value net of provisions.

Counterparty credit risk

According to CBR instruction no 139-I, there is no special treatment for credit derivatives in the trading book; they are included in “Other underlying” for the counterparty risk capital charge.

Market risk

1. The Russian regulation does not provide for an exemption of correlation trading portfolios from the standard risk weights of securitisation exposures in the trading book.

2. Partial allowance is not recognised for positions hedged by credit derivatives. Positions in securities can be offset with the positions in plain-vanilla forwards only for the calculation of net positions for interest rate risk and equity position risk.

Pillar 2

Basel II paragraph 764 requires banks to use a standardised interest rate shock (200 basis points) as the IRRBB assessment measure. In the Russian Federation, credit institutions are required to use gap analysis with stress testing for changes in the interest rate level of 400 basis points as a method of interest rate risk assessment.

Annex 10: List of approaches not allowed by Russian regulatory framework

The following list provides an overview of approaches that the CBR has not made available to Russian banks through its regulatory framework. Where the Basel standards explicitly request certain approaches to be implemented under specific circumstances, the missing approaches have been taken into account in the assessment. However, where the Basel standards do not require jurisdictions to implement these approaches, they have been taken out of the scope of the assessment and implicitly treated as "not applicable".

IRB approach

The CBR has not implemented the Internal Models Method and PD/LGD approach for equity exposures.

Securitisation

The CBR has not implemented the Internal Ratings-Based Approach for securitisations exposures.

Operational risk

The CBR has implemented neither the Standardised Approach for operational risk nor the Advanced Measurement Approach.

Counterparty credit risk

The CBR has implemented neither the standardised method nor the internal model method for counterparty credit risk. The advanced approach for the CVA capital charge has not been implemented.

Market risk

The CBR has not implemented the internal models approach for market risk. Also, the CBR did not implement the duration method for general interest rate risk, the specific approach for arbitrage strategies, the maturity ladder approach for commodity risk and the simplified approach and scenario approach for options.

Annex 11: Areas for further guidance from the Basel Committee

The Assessment Team identified the following areas where further guidance is required from the Basel Committee. Additional detail is provided in Section 1.4.

Credit risk standardised approach

Regarding the valuation of collateral, the team noted that the Basel standard sets no specific guidance or criteria for the risk that the value of the collateral may not accurately reflect the costs associated with seizing the collateral – as well as the ability to sell it in distressed conditions. The team recognises that national valuation practices may differ in this area. In this regard, the team would recommend that the Basel Committee reviews if further guidance may be needed, in particular regarding the risk-weighting of mortgages that may be difficult to repossess, to ensure prudence and consistency in approaches.

1000% risk weight instead of 1250%

The Basel framework applies an 8% minimum capital ratio. Based on this ratio, certain exposures are risk-weighted at 1250% to achieve a 100% capital charge for these exposures (1250% being the inverse of 8%). The team would recommend that the Basel Committee clarify its expectations regarding the implementation of the 1250% risk weight for jurisdictions that seek to apply a minimum capital requirement higher than 8%.

Annex 12: List of issues for follow-up RCAP assessments

The Assessment Team identified the following issue listed below for a future follow-up RCAP assessment of Russia.

Securitisation

As the CBR has not implemented the internal model approaches for securitisation exposures, the team recommends keeping the securitisation framework under review at a future follow-up RCAP assessment.

Annex 13: Russia's implementation of the Pillar 2 supervisory review process

The methodology for supervisory assessment of banks' and banking groups' capital adequacy for material and potentially material risks and the ICAAP quality is implemented in the CBR Ordinance no 3883-U "On the Assessment of Quality of Risk and Capital Management Framework and Capital Adequacy of Credit Institutions and Banking Groups performed by the Bank of Russia" (hereinafter referred to as Ordinance no 3883-U). According to this methodology, the capital adequacy assessment of a bank (banking group) is performed by assessing the quality of the bank's ICAAP (the group's ICAAP), economic position of the bank (a major participant of the banking group that is a credit institution, parent credit institution of the banking group) according to CBR Ordinance no 2005-U (the CBR's RAS methodology) and the banking group's compliance with capital adequacy ratios. The ICAAP quality assessment is performed annually and remains unchanged during the reporting year. The capital adequacy assessment is performed at least quarterly and reflects changes in results of the credit institution's activities after the ICAAP quality assessment.

According to Ordinance no 3883-U, the ICAAP quality is assessed for the purpose of evaluating the conformity of bank's ICAAP with the character and scale of the operations carried out by the bank (the banking group), level and combination of risks taken, and determining the bank's (banking group's) capital adequacy to cover all material risks. In terms of ICAAP quality assessment, compliance with the requirements stipulated in Ordinance no 3624-U "On the Requirements for the Risk and Capital Management System of a Credit Institution or a Banking Group" by credit institutions (banking groups) should be assessed. The ICAAP quality assessment is a product of the assessment of the ICAAP framework, risk management system, capital management procedures, and the bank's (banking group's) ICAAP results. Based on the ICAAP quality assessment, the bank (the banking group) is classified into one of four ICAAP quality categories.

The ICAAP framework assessment includes control of the board and senior management of the bank (parent credit institution of the banking group) over the ICAAP development, its implementation by the bank (banking group, subsidiary) and its efficiency; the independence of functions engaged in risk management from those engaged in risk taking; the compliance of internal control procedures with the requirements of the CBR.

The assessment of risk and capital management system includes the conformity of this system with the character and scale of operations carried out by the bank (banking group), level and combination of risks taken, and the adequacy of the methodology for risk and capital assessment.

The assessment of ICAAP results reveals whether capital is adequate to cover risks not fully captured under Pillar 1 as well as other material risks (Pillar 2 risks) taken by the bank in conjunction with stress tests results and development strategy. According to Ordinance no 3624-U, the banking group's ICAAP should cover risks taken by subsidiary bank and the risks taken by non-credit institutions that are members of the banking group.

The capital adequacy of the bank (banking group) is assessed by classifying them into five assessment groups.

According to the assessment of the bank's (banking group's) capital adequacy, the CBR may set individual minimum capital adequacy ratios by imposing add-ons.

The CBR submits the information on the identified shortcomings and on ICAAP quality categories, capital adequacy assessment groups and individual capital adequacy ratios to the single executive body of the bank (parent bank of the banking group). The single executive body of the bank (parent bank of the banking group) is advised to communicate the information to the board of directors and the collective executive body of the bank (parent bank of the banking group).