Basel Committee
on Banking Supervision

Progress report on Basel III implementation

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E-mail: publications@bis.org

Fax: +41 61 280 9100 and +41 61 280 8100

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Introduction

At its September 2011 meeting, the Basel Committee agreed to commence a process to review members' implementation of Basel III. Full, timely and consistent implementation of Basel III will be fundamental to raising the resilience of the global banking system, in maintaining market confidence in regulatory ratios and in providing a level playing field. The review process is intended to provide additional incentives for member jurisdictions to fully implement the standards within the agreed timelines.

As part of this process, the Committee published in October 2011 a first progress report on Basel III implementation. The Committee indicated at that time that this reporting would be updated on a regular basis.

In this revised report, the Committee is providing information about the progress in regulatory adoption of Basel III by each Committee member country as of end March 2012 and updates on the Committee's Basel III implementation review exercise.

Adoption status of Basel III by Basel Committee member jurisdictions

The following tables, based on reports made by members, indicate the adoption status of Basel II, Basel 2.5 and Basel III for each Committee member jurisdiction as of end March 2012. Please refer to pages 8 and 9 for the scope and methodology of the survey.

Status of Basel II adoption (as of end March 2012)

Country	Basel II	Next steps – Implementation plans
Argentina	1, 3	(1) On-going work to assess the migration from Basel I to the Basel II standardised approach for credit risk. (3) Final rules for operational risk and Pillar 2 published.
Australia	4	
Belgium	4	
Brazil	4	
Canada	4	
China	4	Supervisory guidelines released between 2007 and 2010 which will be integrated into new capital regulation combining BII, B2.5 and BIII. Large banks submitted application for advanced approaches currently assessed by CBRC.
France	4	
Germany	4	
Hong Kong SAR	4	
India	4	
Indonesia	3, 4	(3) Pillar 2 and Pillar 3 to be implemented from December 2012. (4) Pillar 1 (all elements based on standardised approaches) implemented.
Italy	4	
Japan	4	
Korea	4	
Luxembourg	4	
Mexico	4	
The Netherlands	4	
Russia	1, 4	(1) Pillar 2 expected to be implemented not earlier than in 2014. (4) Simplified standardised approach for credit risk, simplified approach for market risk and the Basic Indicator Approach for operational risk implemented.
Saudi Arabia	4	
Singapore	4	
South Africa	4	
Spain	4	
Sweden	4	
Switzerland	4	
Turkey	4	Parallel run on-going. Final application from July 2012.
United Kingdom	4	
United States	4	Parallel run on-going – All Basel II mandatory institutions are required to implement the advanced approaches to credit risk and operational risk. Banks have made significant progress in

		implementation efforts and those institutions in parallel run are reporting both Basel I and Basel II regulatory capital ratios to supervisors on a quarterly basis. US institutions in parallel run remain subject to Basel I capital requirements.
European Union	4	

Number and colour code: 1 = draft regulation not published; 2 = draft regulation published; 3 = final rule published; 4 = final rule in force. Green = implementation completed; Yellow = implementation in process; Red = no implementation.

Status of Basel 2.5 adoption (as of end March 2012)

Country	Basel 2.5	Next steps – Implementation plans
Argentina	1	On-going work to draft preliminary documents.
Australia	4	
Belgium	4	
Brazil	4	
Canada	4	
China	4	Basel 2.5 included in BII related guidelines and to be integrated into new capital regulation.
France	4	
Germany	4	
Hong Kong SAR	4	
India	4	
Indonesia	1	Basel 2.5 considered as not relevant to be implemented in the Indonesian context as securitisation exposures are very small and more on traditional forms (only one bank has completed securitisation transactions as the originator). Moreover, no bank in Indonesia has adopted the internal model-based approach for market risk capital charge calculation.
Italy	4	
Japan	4	
Korea	4	
Luxembourg	4	
Mexico	1	Securitisation and resecuritisation requirements to be implemented within the Basel III framework, which will be implemented early in 2012. On-going work to incorporate the enhancements to Pillar 2 and Pillar 3 and the revisions to the Basel II market risk framework.
The Netherlands	4	
Russia	1, 2	(1) Pillar 2 expected to be implemented not earlier than in 2014. (2) Final regulation (revision to the simplified approach for market risk) expected shortly - regulation expected to come into force during Q2 2012.
Saudi Arabia	3	
Singapore	4	
South Africa	4	
Spain	4	
Sweden	4, 1	(4) Final rules for the Basel 2.5 agreement are in force, including liquidity management and remuneration. (1) The supplementary Pillar 2 guidance is, for the most part, applied in practice in the Pillar 2 supervision, however a new national ICAAP guideline is still under development.

Switzerland	4	
Turkey	1, 4	(1) On-going work to harmonise current regulation with Basel 2.5 rules - final regulation expected to be published in early 2012. (4) Changes related to securitisation/resecuritisation positions taken into account in the Basel III context.
United Kingdom	4	
United States	1, 2	(2) Market risk capital requirements have been proposed and remain to be finalised. These proposed requirements were modified in December 2011 to incorporate restrictions on the use of credit ratings as set forth in the Dodd-Frank regulatory reform legislation. (1) Other Basel 2.5 revisions are under development as part of the proposed Basel III rule currently expected to be issued for comment during Q2 2012.
European Union	4	Final date for full transposition by member states of the European directive implementing Basel 2.5: 31 December 2011.

Number and colour code: 1 = draft regulation not published; 2 = draft regulation published; 3 = final rule published; 4 = final rule in force. Green = implementation completed; Yellow = implementation in process; Red = no implementation.

Status of Basel III adoption (as of end March 2012)

Country	Basel III	Next steps – Implementation plans
Argentina	1	On-going work to draft preliminary documents.
Australia	2	Draft rules for capital requirements issued on 30 March 2012. Draft rules to implement liquidity requirements issued in November 2011 for public consultation until 17 February 2012.
Belgium	(2)	(Follow EU process – third compromise text published)
Brazil	2	Draft regulation published for public consultation on 17 February 2012.
Canada	2	On 1 February 2011, banks were directed to meet the 7% CET1 standard as of January 2013. Regulations for (i) non-viability contingent capital and (ii) transitioning for non-qualifying instruments published August and October 2011 respectively. Draft regulation for definition of capital and counterparty credit risk issued to banks in March 2012.
China	2	Draft regulation combines BII, B2.5 and BIII. Public consultation ended in 2011. Final rule expected to come into force in Q3 2012. Will be applied to all banking institutions.
France	(2)	(Follow EU process – third compromise text published)
Germany	(2)	(Follow EU process – third compromise text published)
Hong Kong SAR	1,3	(3) Bill passed by the Legislative Council on 29 February 2012 and published for the purpose of creating rule-making powers for the implementation of Basel III. (1) Industry consultation underway on policy proposals for inclusion in rules. Consultation on draft text of rules scheduled for second half of 2012.
India	2	Draft regulation released for comments on 30 December 2011.
Indonesia	1	Draft regulation to be released for consultation with industry in Q2 2012.
Italy	(2)	(Follow EU process – third compromise text published)
Japan	3	Draft regulation published on 7 February 2012 – Final rules published on 30 March 2012 – Implementation of final rules (end of March 2013 – In Japan, the fiscal year for banks starts in April and ends in March).
Korea	1	Draft regulation to be published in the first half of 2012.
Luxembourg	(2)	(Follow EU process – third compromise text published)
Mexico	1	Final rule expected in Q2 2012.
The Netherlands	(2)	(Follow EU process – third compromise text published)
Russia	1	Draft regulations under development.
Saudi Arabia	3	Final regulation issued to banks.
Singapore	2	Public consultation on draft ended in February 2012. Final rule is expected to be published in mid-2012.

South Africa	1	Draft amendments to legislation issued on 30 March 2012 for consultation.
Spain	(2)	(Follow EU process – third compromise text published)
Sweden	(2)	(Follow EU process – third compromise text published)
Switzerland	2	Public consultation on draft regulation on Basel III has been finished in January 2012. Decision on final rules text expected until mid-2012. Final SIFI regulation (level: Banking Act) adopted by Parliament on 30 September 2011 – Draft SIFI regulation (level: accompanying ordinances) was published in December 2011; decision on final rule text expected before end-2012.
Turkey	1	Draft regulation expected to be published in mid-2012.
United Kingdom	(2)	(Follow EU process – third compromise text published)
United States	1	Draft regulation for consultation planned during Q2 2012. Basel 2.5 and Basel III rulemakings in the United States must be coordinated with applicable work on implementation of the Dodd-Frank regulatory reform legislation.
European Union	2	Third compromise text (directive and regulation) published by the Danish Presidency on 28 March 2012.

Number code: 1 = draft regulation not published; 2 = draft regulation published; 3 = final rule published; 4 = final rule in force.

Scope

Basel III builds upon and enhances the regulatory framework adopted by Basel II and Basel 2.5, which now form integral parts of the Basel III framework. The tables above therefore review members' regulatory adoption of Basel II, Basel 2.5 and Basel III.

- Basel II, which improved the measurement of credit risk and included capture of operational risk, was released in 2004 and was due to be implemented from year-end 2006.[1]
- Basel 2.5, agreed in July 2009, enhanced the measurements of risks related to securitisation and trading book exposures.[2] Basel 2.5 was due to be implemented no later than 31 December 2011.
- In December 2010, the Committee released Basel III, which set higher levels for capital requirements and introduced a new global liquidity framework.[3] Committee members agreed to implement Basel III from 1 January 2013, subject to transitional and phase-in arrangements.

In November 2011, G20 leaders in Cannes called on jurisdictions to meet their commitment to implement fully and consistently Basel II and Basel 2.5 by end 2011, and Basel III, starting in 2013 and completing by 1 January 2019.

At this stage, the tables presented in this report focus on the adoption of the capital requirements measured against risk-weighted assets (RWAs). Basel III's liquidity ratios and the leverage ratio will be included in the review after the Committee concludes its study on any revisions or final adjustments.

Methodology

In the tables above, the following classification is used to classify the status of adoption of regulatory rules:

1. **Draft regulation not published**: this status corresponds to cases where no draft law, regulation, or other official document has been made public to detail the planned content of the domestic regulatory rules. This status includes cases where a jurisdiction has communicated high-level information about its implementation plans but not detailed rules.

2. **Draft regulation published**: this status corresponds to cases where a draft law, regulation or other official document is already publicly available, for example for public consultation or legislative deliberations. The content of the document has to be specific enough to be implemented when adopted.

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[1] *International Convergence of Capital Measurement and Capital Standards – a revised framework,* June 2006.

[2] *Enhancements to the Basel II framework, Revisions to the Basel II market risk framework* and *Guidelines for computing capital for incremental risk in the trading book,* July 2009.

[3] *Basel III: A global regulatory framework for more resilient banks and banking systems,* December 2010.

3. **Final rule published**: this status corresponds to cases where the domestic legal or regulatory framework has been finalised and approved but is still not applicable to banks.

4. **Final rule in force**: This status corresponds to cases where the domestic legal and regulatory framework is already applied to banks.

In order to support and supplement the status reported, summary information about the next steps and the implementation plans being considered by members are also provided for each jurisdiction.[4]

For Basel II and Basel 2.5, a special colour code has been used in addition to the status above, to identify the jurisdictions which, independent of the adoption status reported, have in practice not effectively completed the implementation of the rules. The use of such a colour code will be expanded to Basel III in 2013.

Updates on the Committee's Basel III implementation review exercise

The Committee has adopted a comprehensive approach for Basel III implementation review, which is comprised of the following three levels:

- Level 1: ensuring the timely adoption of Basel III,
- Level 2: ensuring regulatory consistency with Basel III; and
- Level 3: ensuring consistency of risk-weighted assets.

The assessments will cover all the components of Basel III, including those introduced by Basel II and 2.5.

Level 1: Timely adoption of Basel III

The objective of the "Level 1" assessment is to ensure that Basel III is transformed into law or regulation according to the agreed international timelines. It focuses on the domestic rule-making processes and does not include the review of the content of the domestic rules. The Level 1 assessment is the foundation for the assessments at the other levels. The tables in the earlier part of this report present the outcome of the Level 1 assessment, which will be updated regularly.

Level 2: Regulatory consistency

The objective of the "Level 2" assessments is to ensure compliance of domestic regulations with the international minimum requirements. The Committee will identify the domestic regulations and provisions that are not consistent with the international rules and assess their impact on the international level playing field and financial stability. Deficiencies identified by the Level 1 review will feed into the Level 2 assessment.

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[4] The tables are also available on the Basel Committee's website (www.bis.org/bcbs). The web version of the tables also includes links to relevant domestic regulations.

All assessments will be summarised using the following four-grade scale: compliant, largely compliant, materially non-compliant and non-compliant, which is consistent with the approach used for the *Core Principles for Effective Banking Supervision*. The Committee intends to produce an overall assessment, as well as assessments of the main components of Basel III (eg definition of capital, application of the various credit and market risk rules, capital buffers, etc).

The Committee published on its website the detailed methodology it used to assess the regulatory consistency of the domestic regulations adopted by its members in April 2012.

In February 2012, the Committee established review teams for the European Union, Japan and the United States, and formally started the assessment process in early March. The final results of these first reviews are expected to be published by the end of September 2012. The Committee also plans to assess Singapore later in the year.

Level 3: Risk-weighted assets consistency

The objective of the “Level 3” assessments is to ensure that the outcomes of the new rules are consistent in practice across banks and jurisdictions. It extends the analysis of Levels 1 and 2, which focus on national rules and regulations, to supervisory implementation at the bank level. This work will focus on the review and validation of how banks calculate their RWAs. The Committee has established two expert groups, one on the banking book and the other on the trading book. Their work will rely on a combination of various tools (off-site analysis, hypothetical/test portfolio exercises, thematic reviews and on-site reviews of banks), as needed. Both quantitative and qualitative analysis will be undertaken.

The work on the consistency of risk-weighted assets in the banking book and in the trading book will identify areas of material inconsistencies in the calculation of RWAs among banks and jurisdictions, as well as areas of broad consistency. Preliminary findings will be communicated in the course of 2012. This work may result in policy recommendations to address the identified inconsistencies and in narrowing down the range of practices.