Basel Committee on Banking Supervision

SRP

Supervisory review process

SRP10

Importance of supervisory review

Version effective as of 15 Dec 2019

First version in the format of the consolidated framework.

BANK FOR INTERNATIONAL SETTLEMENTS

Importance of supervisory review

10.1 The supervisory review process of the Framework is intended not only to ensure that banks have adequate capital and liquidity to support all the risks in their business, but also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks.

10.2 The supervisory review process recognises the responsibility of bank management in developing an internal capital assessment process and setting capital targets that are commensurate with the bank's risk profile and control environment. In the Framework, bank management continues to bear responsibility for ensuring that the bank has adequate capital to support its risks beyond the core minimum requirements.

10.3 Supervisors are expected to evaluate how well banks are assessing their capital needs relative to their risks and to intervene, where appropriate. This interaction is intended to foster an active dialogue between banks and supervisors such that when deficiencies are identified, prompt and decisive action can be taken to reduce risk or restore capital. Accordingly, supervisors may wish to adopt an approach to focus more intensely on those banks with risk profiles or operational experience that warrants such attention.

10.4 The Committee recognises the relationship that exists between the amount of capital held by the bank against its risks and the strength and effectiveness of the bank's risk management and internal control processes. However, increased capital should not be viewed as the only option for addressing increased risks confronting the bank. Other means for addressing risk, such as strengthening risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls, must also be considered. Furthermore, capital should not be regarded as a substitute for addressing fundamentally inadequate control or risk management processes.

10.5 There are three main areas that might be particularly suited to treatment under Pillar 2: risks considered under Pillar 1 that are not fully captured by the Pillar 1 process (eg credit concentration risk); those factors not taken into account by the Pillar 1 process (eg interest rate risk in the banking book, business and strategic risk); and factors external to the bank (eg business cycle effects). A further important aspect of Pillar 2 is the assessment of compliance with the minimum standards and disclosure requirements of the more advanced methods in Pillar 1. Supervisors must ensure that these requirements are being met, both as qualifying criteria and on a continuing basis.