Basel Committee
on Banking Supervision

Launch of the consolidated Basel Framework

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Consolidated Basel Framework

Introduction

The Basel Committee on Banking Supervision (Basel Committee) is the primary global standard setter for the prudential regulation of banks, as well as providing a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

In April 2019, the Basel Committee issued a draft version of the consolidated Basel Framework. The framework brings together all of the Basel Committee's global standards for the regulation and supervision of banks and presents them on a new section of its website.[1] The framework comprises 14 "standards", setting out requirements on specific topics, each of which is further divided into "chapters". This modular format will make it easier to maintain the standards over time.

The publication of the standards in the new format of the consolidated framework has focused on reorganising existing requirements, not introducing new requirements or otherwise amending the standards previously agreed and published by the Basel Committee. The preparation of the standards in the new format did, however, reveal some inconsistencies between Basel requirements as well as ambiguities that needed to be addressed through minor policy changes. Therefore, concurrent with the publication of the draft consolidated framework, the Basel Committee published a consultative document that outlined the proposed changes.[2] The consultation period closed in August 2019 and all responses that were marked as public have been uploaded to the Committee's website.[3]

The Committee has reviewed the feedback to the consultation and finalised the first (non-draft) version of the consolidated framework. Set out below in Section 1 of this document are the changes that the Committee agreed to make relative to the draft version of the framework. These changes are in response to the comments it received on the consultative document and as a result of its own internal review. Section 2 lists the new frequently asked questions and answers (FAQs) added to the framework since its publication in draft form in April 2019.

Legal status and implementation

The Basel Committee does not possess any formal supranational authority and its decisions have no legal force. The Committee's members have committed themselves to implementing and applying Basel standards in their domestic jurisdictions within the pre-defined time frames established by the Committee. Therefore, the requirements set out in the consolidated framework (in the same way as the standards previously published in pdf form) only apply to banks once they have been transposed into national laws or regulations by the relevant authorities in each jurisdiction.

The proposed technical amendments described in the consultative document are reflected in the consolidated framework. These are not substantial in nature and, in the Committee's view, contribute to a more coherent prudential framework. Therefore, the Committee encourages its members to implement the final requirements as soon as possible, and no later than 1 January 2022. No other changes, such as the drafting amendments set out in Section 1 below or new FAQs set out in Section 2, represent a change in the policy of the Basel standards. As such, their implementation in national regulations is optional.

1 www.bis.org/basel_framework/

2 www.bis.org/bcbs/publ/d462.htm

3 www.bis.org/bcbs/publ/comments/d462/overview.htm

1. Drafting amendments

Described below are the edits to the Consolidated Basel Framework that the Committee has made in finalising the framework. This list does not include superficial edits such as the correction of typos. The edits are in addition to the technical amendments described in Section 1 of the consultation document published in April 2019, when the framework was issued in draft form.

CAP: Definition of capital

CAP10 Definition of eligible capital

- A respondent to the April 2019 consultation suggested that the change in the use of the term "special purpose vehicle" to "special purpose entity" could imply an unintended change policy, given that "special purpose entity" is defined within the securitisation chapters in a way that may not be applicable within the definition of capital chapters. The text of the chapter has therefore been changed back to use the original term of "special purpose vehicle" which was used in the published June 2011 Basel III document.

CRE: Calculation of RWA for credit risk

CRE20 Standardised approach: individual exposures

- For the same reasons as noted above for CAP10, the text of CRE20 has been changed to revert to the terminology of "special purpose vehicle" which was used in the December 2017 Basel III publication.

CRE22 Standardised approach: credit risk mitigation

- CRE22.90 (2019 version) has been updated to make clear that qualifying central counterparties (QCCPs) can be recognised as providing credit protection. Specifically, text has been added to refer to "other prudentially regulated financial institutions" which are defined in a new footnote. The additional text is consistent with an FAQ that was issued by the Committee in 2012 and ensures that the text of the 2019 version of CRE22 is aligned with the text set out in CRE22.76(1) of the 2022 version.
- CRE22.44 (2022 version) has been updated to change the words "repo-style transactions" to "securities financing transactions". This adjustment is a consequence of a change introduced via the April 2019 consultation on the Consolidated Basel Framework. The consultative document changed references to "repo-style transactions" to "securities financing transactions" in CRE22.62 to CRE22.65. As a result, CRE22.44 has also now been amended because it cross-refers to CRE22.62 to CRE22.65.

CRE32 IRB approach: risk components

- CRE32.32 and CRE32.63 (2022 version) have been updated to clarify that the definition of a "commitment" that applies in the standardised approach to credit risk also applies in the IRB approach.

CRE36 IRB approach: minimum requirements to use IRB approach

- CRE36.99 (2022 version) has been amended to delete a sentence that would have allowed banks not to give equal importance to historic data in the estimation of exposure at default (EAD) for retail exposures. This sentence was mistakenly left in the Basel III framework and chapter CRE36 of the Consolidated Basel Framework when it was published in April 2019. Similar sentences were removed in relation to probability of default (PD) and loss given default (LGD) estimates in Basel III, and so for consistency the sentence relating to EAD has also been deleted.

CRE40 Securitisation: general provisions

- CRE40.94 and CRE40.164 (2022 version) have been updated to ensure consistency in terminology with the chapter on the standardised approach to credit risk (CRE20).

CRE42 Securitisation: External-ratings-based approach (SEC-ERBA)

- The section on the Internal Assessment Approach (SEC-IAA) has been carved out and placed in a new chapter CRE43 (the former chapter CRE43 has been relabelled CRE44). Placing SEC-IAA in a separate chapter better reflects the fact that it represents a separate approach from SEC-ERBA.

CRE44 Securitisation: Internal-ratings-based approach

- CRE44.2 (2019 and 2022 versions) has been amended to add a new footnote that clarifies the treatment of undrawn balances to avoid false interpretations that may lead to double-counting of capital and undercapitalisation possibilities.

CRE51 Counterparty credit risk overview

- CRE51.16 (2019 and 2022 versions) has been updated to delete a sentence that would have exempted from counterparty credit risk capital requirements transactions for which the probability of default is defined on a pooled basis. The sentence was put in the wrong paragraph when transposed from the corresponding Basel II framework text (footnote 238 in Annex 4).

CRE60 Equity investments in funds

- CRE60.7(3) (2019 and 2022 versions) has been updated to clarify how banks should calculate the mandate-based approach in cases where the fund has derivative exposures and the replacement cost of the derivatives is unknown. The edits also improve the precision of the terminology in this paragraph.

<u>LEV: Leverage ratio</u>

LEV30 Exposure measurement

- CRE30.27 (2022 version) has been inserted to give effect to the Committee’s 26 June 2019 publication on client cleared derivative transactions.

<u>LEX: Large exposures</u>

LEX10 Definitions and application

- LEX10.1 and LEX10.2 have been updated to include references to “groups of connected counterparties” to ensure consistency with the text of the original published large exposures framework and consistency with the scope of the framework as set out in LEX10.8.

LEX30 Exposure measurement

- LEX30.21 (2019 version) and LEX30.20 (2022 version) have been updated to move the final sentence to a new paragraph (the subsequent paragraph in each case). This is to avoid giving the impression that that covered bonds held in the trading book are subject to the look through approach.

MAR: Calculation of RWA for market risk

MAR21 Standardised approach: sensitivities-based method

- MAR21.33(2) has been updated to clarify that the criteria for allocating indices into an index bucket or a specific sector bucket set out in MAR21.33(1) apply to all bucketing cases, including assigning an eligible equity or credit index into a specific index bucket.
- MAR21.71 has been updated to remove the previous explanation that the correlation parameter is set to 1 when aggregating the 'other sector' bucket with the rest of the buckets of delta credit spread risk (CSR) securitisations (non-CTP). This text update clarifies the original intention of a simple sum and recognising no diversification or offsetting effects with any bucket.
- MAR21.99 has been amended to correct a typo that may lead to unintendedly conservative capital requirements. The text is updated such that when applying the curvature risk weight for all tenors for each curve, the highest prescribed delta risk weight for each bucket, not for each risk class, applies.
- MAR21.100 has been amended to clarify that the treatment for cases where the set of curvature risk factor is defined differently than the corresponding delta risk factor for CSR non-securitisations and CSR securitisations (CTP) also applies to the corresponding case for CSR securitisations (CTP) and commodities.

MAR22 Standardised approach: default risk capital requirement

- Table 1 in MAR22.14 has been updated to generalise the example presented for credit default swaps (CDS) in a way that is appropriate, whether the mark-to-market value of the CDS is positive or negative.

MAR23 Standardised approach: residual risk add-on

- MAR23.7 has been amended to clarify that instruments that are listed and/or eligible for central clearing are only excluded from other residual risks as defined in MAR23.4. Any instrument with an exotic underlying must be included in the residual risk capital requirement.

MAR33 Internal models approach: capital requirements calculation

- The previously published FAQ1 to MAR33.5 has been amended to remove the part explaining the implication the FAQ response, as counterexamples to the previous wording are possible. The response itself is unaffected with this amendment.

MGN Margin requirements

MGN90 Transition

- MGN90.2 has been updated to give effect to the BCBS-IOSCO extension of the implementation timeline of the margin requirements standard, published on 23 July 2019.

DIS Disclosure requirements

DIS10 Definitions and applications

- An Excel workbook with all disclosure templates outstanding at the relevant date has been added to DIS10. This workbook does not replace the templates within each chapter, but instead complements the information by providing users with a single file, enabling better access across disclosure requirements in a format that some users will likely find more useful than HTML or PDFs.

- All chapters on the website of the consolidated framework have an “effective as of” date. For Pillar 1 and Pillar 2 standards, this date is simply the latest date by which the Basel Committee has agreed that the relevant standard should be implemented in national rules. For the Pillar 3 disclosure chapters, there is a risk that the “effective as of” is not interpreted consistently. To mitigate the risk of misinterpretation a new clarifying paragraph (DIS10.4) has been inserted, together with accompanying illustrative examples set out in DIS99.

DIS30 Links between financial statements and regulatory exposures

- In *Template LI2 - Main sources of differences between regulatory exposure amounts and carrying* values in financial statements, some cells in column (e) “Market risk framework” do not have applicable regulatory definitions. Thus, all cells in column (e) except for rows 1 to 3 have been greyed out. The narrative and the instructions are adjusted accordingly.

DIS43 Securitisation

- As noted above for CRE42, the Internal Assessment Approach (SEC-IAA) should be considered a separate approach from the SEC-ERBA. Consistent with this, the titles for columns (g), (k) and (o) within DIS43 have been renamed to “SEC-ERBA and SEC-IAA”. There is no change in the substance or reporting burden as the combined amounts are still to be reported in each column.

2. New FAQs

Table 1 summarises the FAQs added to the consolidated framework relative to the draft version of the framework published in April 2019.[4]

[4] With the exception of FAQ1 to OPE25.26, all of the FAQs in Table 1 that relate to the operational risk standard (OPE) were published by the Basel Committee in August 2019 (see www.bis.org/bcbs/publ/d476.htm).

New FAQs

Table 1

Topic	Reference	Summary of clarification
Trading book boundary	RBC25.5 FAQ1 (2022 version)	Clarifies the meaning of a position as held for short-term resale in relation to periodic sale activities
Trading book boundary	RBC25.6 FAQ2 (2022 version)	Clarifies the amount to be allocated to the trading book in relation to instruments that give rise to a net short credit or equity position
Trading book boundary	RBC25.16 FAQ2 (2022 version)	Additional explanation on the scope of the capital surcharge for switching between the trading book and the banking book
Trading book boundary	RBC25.25 FAQ1 (2022 version)	Clarifies the trading desk requirements for a general interest rate risk (GIRR) internal risk transfer trading desk
Trading book boundary	RBC25.28 FAQ1 (2022 version)	Clarifies the treatment of internal risk transfers between a trading desk with an internal model approval and a trading desk without an internal model approval
Trading desk requirement	MAR12.6 FAQ1	Clarifies the application of trading desk requirements to "notional trading desks" for banking book FX and commodities
Trading desk requirement	MAR12.6 FAQ2	Clarifies the possibility of certain traders having ownership and responsibilities in both trading book and banking book portfolios
Market risk	MAR21.31 FAQ1	Clarifies the scope of equity investments in funds ineligible to apply the "no look-through approach" using index buckets
Market risk	MAR21.47 FAQ1	Specifies the correlation between inflation curves in the same currency
Market risk	MAR21.92 FAQ1	Additional explanation on determining liquidity horizons for vega risk for equity risk class buckets
Market risk	MAR21.94 FAQ1	Additional explanation on the applicable correlations for cases where the vega risk factors are defined for a smaller number of dimensions than are defined for delta risk factors
Market risk	MAR22.8 FAQ1	Additional explanation on the default risk capital requirement treatment for equity investments in funds in the "other sector" bucket
Market risk	MAR31.13 FAQ1	Clarifies the maximum difference in periods used for the risk factor eligibility test and calibration of the expected shortfall (ES) models for data from internal sources
Market risk	MAR33.5 FAQ3	Describes how to determine whether the ES measure calculated using a reduced set of risk factors explains at least 75% of the variation of the full ES model
CVA risk	MAR50.47 FAQ1 (2022 version)	Specifies the possibility of using algorithmic techniques to calculate CVA sensitivities
SA-CCR	CRE52.10 FAQ1	Clarifies the haircut applicable in the replacement cost calculation for unmargined trades
SA-CCR	CRE52.51 FAQ1	Specifies the margin calls subject to counting the number of disputes in the case of non-centrally cleared derivatives
SA-CCR	CRE52.57 FAQ1	Clarifies the treatment of inflation derivatives in the SA-CCR
SA-CCR	CRE52.59 FAQ1	Clarifies the calculation of the supervisory delta for foreign exchange options
SA-CCR	CRE52.76 FAQ1	Describes the calculation of the potential future exposure in a case where a single margin agreement applies to multiple netting sets

CCR: CCP exposures	CRE54.13 FAQ1	Clarifies the treatment for collateral that is collected from a client of the clearing member and posted to a CCP but that is not held in a bankruptcy-remote manner
CCR: CCP exposures	CRE54.16 FAQ1	Clarifies the treatment of collateral posted by a bank as a client of a clearing member in the case where there is not sufficient protection against clearing member default
CCR: CCP exposures	CRE54.36 FAQ1	Specifies the applications of haircuts for collateral posted as default fund contributions to a qualifying CCP
Precious metal deposits	LCR40.5 FAQ 2 LCR40.86 FAQ 1 NSF30.10 FAQ 1 NSF30.25 FAQ 1	Clarifies the regulatory treatment of precious metal deposits. The new FAQs provide clarifications of the outflow and inflow rates in the Liquidity Coverage Ratio as well as for the corresponding Available and Required Stable Funding factors in the Net Stable Funding Ratio.
Large exposures: exposures to options	LEX30.20 FAQ1 (2022 version)	Clarifies the measurement of exposure values of options for large exposure purposes prior to 1 January 2022. This FAQ was published as part of the April 2019 draft version of the consolidated framework, but was not highlighted as a new FAQ within the consultation document and so is listed here for completeness.
Operational risk: definitions and application	OPE10.2 FAQ1 (2022 version)	Clarifies that credit obligations on non-accrued status should be included in interest-earning assets for the purpose of calculating the Business Indictor
Operational risk: standardised approach	OPE25.18 FAQ1 (2022 version)	Clarifies that for outsourced activities, the financial impacts of events that the bank is responsible for should be included in the dataset as operational losses
Operational risk: standardised approach	OPE25.18 FAQ2 (2022 version)	Clarifies the exchange rate to be used when loss impacts are denominated in a foreign currency
Operational risk: standardised approach	OPE25.26 FAQ1 (2022 version)	Clarifies that there should be no double counting of the same financial impacts in the calculation of operational losses, with references to provisions and charge-offs.
Operational risk: standardised approach	OPE25.26 FAQ2 (2022 version)	Specifies the identification of an operational loss event in the example of a bank refunding a client for overbilling them
Operational risk: standardised approach	OPE25.30 FAQ1 (2022 version)	Clarifies the timing of the recognition of the effect of supervisory approval to exclude losses from the loss component
Operational risk: standardised approach	OPE25.33 FAQ1 (2022 version)	Clarifies the timing of the recognition of the effect of supervisory approval to exclude activities from the Business Indicator
Operational risk: standardised approach	OPE25.34 FAQ1 (2022 version)	Clarifies the timing of the recognition of losses and Business Indicator items related to merged entities or acquired businesses