Martin Birn
Secretariat of the Basel Committee on Banking Supervision

Lea Charlotte Neugebauer
Deutsche Bundesbank

Verena Seidl
Secretariat of the Basel Committee on Banking Supervision

Regional distributions of Group 1 and Group 2 banks and their impact on results in the Basel III monitoring reports

Compared with the previous period, the total sample size for the cumulative impact assessment fell from 169 to 135 banks for the end-June 2022 reporting date. The number of Group 1 banks declined by 10% (Graph 1), while RWA increased slightly (Graph 2). In contrast, the number of Group 2 banks decreased by nearly 40%, while RWA decreased by 44%. The RWA increase for Group 1 banks is driven mainly by portfolio changes, whereas the RWA decrease for Group 2 banks is driven mainly by sample changes. The different development between both groups stems from an underlying issue: while the sample of Group 1 banks is somewhat balanced between banks from Europe, the Americas and the rest of the world, the sample of Group 2 banks is strongly dominated by European banks.

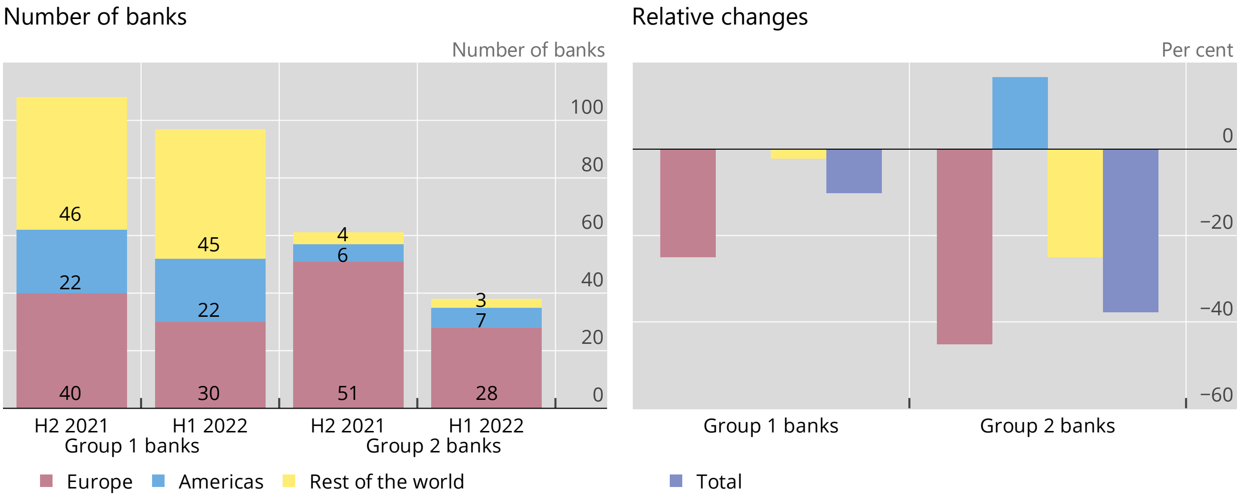
As of end-December 2021, the European Banking Authority (EBA) decided to make the Basel III monitoring exercise mandatory for the year-end reporting dates in order to ensure a more stable and representative sample in Europe. While this resulted in a somewhat larger sample for the end-2021 exercise, several European banks decided not to participate in the end-June 2022 exercise. Therefore, the sample size in the Committee's Basel III monitoring reports will show a high volatility between end-June and end-December reporting dates. Since European banks are especially prominent in the Group 2 sample, this development is particularly visible in this group.

Considering that the Basel III monitoring analyses build the base for policy decisions, both banks and supervisors benefit from representative samples for all reporting dates. Hence, providing data for all reporting dates is highly appreciated.

Comparing the sample composition across regions strengthens the thesis that Group 2 banks' participation is above average in the European Union. About half of the European banks belong to Group 2 (Graph 1, left-hand panel). Nevertheless, Group 2 banks do not materially contribute to total RWA in any region (Graph 2, left-hand panels with different scales). In Europe, the share of Group 2 banks in total RWA at the end-June 2022 reporting date is less than 10%, and in the other two regions it is even less than 1%.

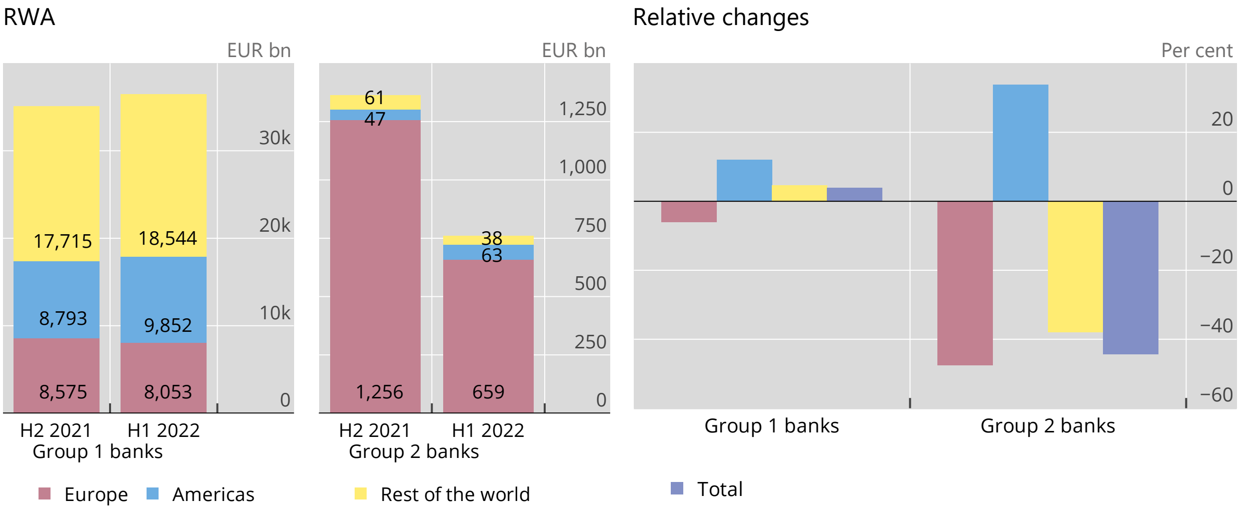
This difference between regions is driven by different degrees of concentration of the banking systems across Basel Committee member countries and by the different application of the Basel framework. While the Basel framework is designed for internationally active banks, some jurisdictions such as the European Union decided to also apply the framework to smaller domestic banks to maintain a domestic level playing field. Hence, the participation of Group 2 banks in this study is of particular interest to these policymakers.

Changes in number of banks between end-December 2021 and end-June 2022 Graph 1



Source: Basel Committee on Banking Supervision.

Changes in RWA between end-December 2021 and end-June 2022 Graph 2



Source: Basel Committee on Banking Supervision.

Table 1 shows the composition of the Group 1 bank sample. The sample is quite balanced: For the end-December 2021 reporting date, about 40% of banks belong to Europe and the rest of the world, each, while banks from the Americas contribute 20% of banks to the sample. For the end-June 2022 reporting date, fewer European banks are represented in the sample. Therefore, the European share decreased to 31%, resulting in increasing shares for the Americas (23%) and the rest of the world (46%). Overall, the shift between both reporting dates is not material. Furthermore, the change in sample composition did not affect Group 1 banks' RWA distribution significantly. For both reporting dates, about one quarter is contributed by European and American banks, each. Therefore, more than 50% of RWA stem from banks in the rest of the world.

Composition of the Group 1 banks sample								Table 1
	H2 2021				H1 2022			
	Number of banks		Total RWA		Number of banks		Total RWA	
Europe	40	37%	8,575	24%	30	31%	8,053	22%
Americas	22	20%	8,793	25%	22	23%	9,852	27%
Rest of the world	46	43%	17,715	50%	45	46%	18,544	51%
All	108	100%	35,083	100%	97	100%	36,449	100%

Source: Basel Committee on Banking Supervision.

In contrast, Group 2 banks are strongly dominated by European banks (Table 2). For the end-December 2021 reporting date, 84% of participating banks belong to the European region. Even though the number of European Group 2 banks reduced significantly for the end-June 2022 reporting date, the vast majority of Group 2 banks still originates from Europe (74%). Analysing the composition of Group 2 banks' RWA strengthens this observation. European banks contribute 92% of RWA in H2 2021 and still 87% in H1 2022.

Composition of the Group 2 banks sample								Table 2
	H2 2021				H1 2022			
	Number of banks		Total RWA		Number of banks		Total RWA	
Europe	51	84%	1,256	92%	28	74%	659	87%
Americas	6	10%	47	3%	7	18%	63	8%
Rest of the world	4	7%	61	4%	3	8%	38	5%
All	61	100%	1,364	100%	38	100%	760	100%

Source: Basel Committee on Banking Supervision.

The imbalance of regions within Group 2 banks also results in a bias towards European banks in the overall aggregate key figures for this group (Table 3). Calculating the average MRC impact across regions shows that average numbers in the Americas and in the rest of the world deviate significantly from the numbers populated at the global level (Table 4 in the body of this report), because European banks offset the effects observed in these regions nearly completely. For Group 1 banks, the total averages are less biased towards the results of European banks, thus presenting more balanced results at the global level.

A more detailed observation of Group 1 and Group 2 banks' change in MRC among countries that provide data for both groups supports this thesis. Overall, 10 countries provide reliable data for both groups. For most of them, Group 2 banks show a lower average MRC change. There is only one country where average MRC change for Group 2 banks exceeds the one for Group 1 banks.

Weighted average changes in Tier 1 MRC at the target level due to the final Basel III standards across regions

In per cent

Table 3

	H2 2021		H1 2022	
	Group 1	Group 2	Group 1	Group 2
Europe	17.5	6.1	15.9	-1.0
Americas	3.9	2.4	1.9	0.9
Rest of the world	-6.8	0.0	-3.9	-9.8
Global	2.4	5.7	2.8	-2.0

Source: Basel Committee on Banking Supervision.

This explains another observation. For the end-December 2021 and earlier reporting dates, the average MRC change at global level was usually higher for Group 2 banks than for Group 1 banks. This could lead to the impression that Group 2 banks face a stronger impact of the final Basel III framework. Considering the average MRC changes across regions as shown in Table 3 proves that this assumption is not accurate. Global average MRC changes are higher only for Group 2 banks, because the sample is biased towards European banks. Observing the individual regions, Group 2 banks average MRC changes are lower than Group 1 banks average MRC changes in every region. Therefore, there is no evidence for a genuinely higher impact of the revisions to the framework on smaller banks. Instead, differences in the current national implementation of the Basel II and initial Basel III frameworks may explain some of the differences in impact.