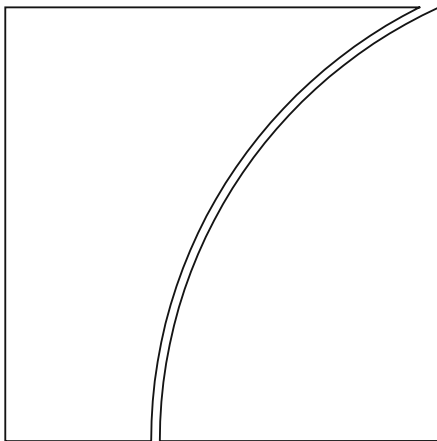


Basel Committee on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Handbook for jurisdictional assessments



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Foreword

The Regulatory Consistency Assessment Programme (RCAP) Handbook for jurisdictional assessments (the Handbook) contain guidance and principles for RCAP Assessment Teams and Review Teams, assessed jurisdictions and experts seeking background information on RCAP issues and implementation topics. In particular, it describes the RCAP governance and process for conducting jurisdictional assessments.

The Handbook presents a general framework as well as specific methodologies for assessing a regulatory framework's quality and consistency. The assessment methodology is sufficiently general to accommodate differences in structural and institutional factors across jurisdictions. The Handbook was prepared by the implementation team of the Basel Committee Secretariat and reviewed and approved by the Policy and Standards Group (PSG) and the Committee.

The Handbook is a flexible compendium in that guidance and principles are revised or elaborated further as the RCAP evolves. It will be revised and updated periodically based on lessons learnt from jurisdictional assessments, PSG and Committee discussions.

This version supersedes the previous RCAP Handbook approved by the Committee in June 2022¹ and is applicable to the RCAP of the revised risk-based capital framework published between 2017-20 and the leverage ratio framework (see sections 6 and 7 for the scope of these assessments). The previous edition of the RCAP Handbook, applicable to RCAPs conducted between 2012-2023 is available on the BIS website.²

² <https://www.bis.org/bcbs/publ/d540.htm>

Glossary

BCG	Basel Consultative Group
D-SIB	Domestic systemically important bank
FAQ	Frequently asked question
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
LCR	Liquidity Coverage Ratio
LEV	Leverage ratio framework
LR	Leverage ratio
NSFR	Net stable funding ratio
PSG	Policy and Standards Group
PRB	Peer Review Board
RBC	Risk-based capital
RCAP	Regulatory Consistency Assessment Programme
RWA	Risk-weighted assets
SCG	Supervisory Cooperation Group

1 Introduction to RCAP consistency assessments

1.1 Introducing the RCAP

Full, timely and consistent implementation of Basel III post-Great Financial Crisis reforms is of fundamental importance in building a resilient financial system, maintaining public confidence in the regulatory frameworks and providing a level-playing field for internationally active banks. This has been repeatedly affirmed by the G20 leaders, and the Group of Central Bank Governors and Heads of Supervision since the Great Financial Crisis.

Recognising the fundamental importance of implementation, the Basel Committee on Banking Supervision established the Regulatory Consistency Assessment Programme (RCAP) in 2012. All Basel Committee member jurisdictions contribute to the RCAP and participate in its monitoring and assessments. The purpose of the programme is to promote full, timely and consistent implementation of the Basel Framework and thus contribute to global financial stability. The RCAP supports the Financial Stability Board's (FSB) coordination framework for monitoring the implementation of agreed G20/FSB financial reforms.³ It is also complementary to the Financial Sector Assessment Program (FSAP) of the International Monetary Fund (IMF) and World Bank (which, among other things, assesses compliance with the Basel Committee's *Core principles for effective banking supervision*)⁴. The RCAP focuses on regulatory implementation of the Basel Framework in terms of consistency and completeness, while the FSAP assessment of the Basel Core Principles takes into account the full range of supervisory practices and is carried out in the context of a wider financial stability risk analysis.

The RCAP consists of two distinct but complementary parts. The first is based on self-reporting and *monitors* the timely adoption of Basel standards. The second *assesses* the consistency and completeness of the adopted standards. The second part has two strands: regular jurisdictional peer reviews and, on an as-needed basis and as determined by the Committee, thematic assessments of regulatory outcomes. More information on the structure of the programme, along with all published RCAP reports, is available on the Basel Committee website.⁵

The RCAP is overseen by the Policy and Standards Group (PSG), which is responsible for developing and maintaining the assessment methodology described in this Handbook, with support from the Secretariat. The Basel Committee has the final responsibility for approving the assessment methodology, as well as all assessment reports and interpretations of its standards.

1.2 RCAP consistency assessments – jurisdictional peer reviews

This Handbook focuses on the jurisdictional peer reviews. These reviews assess the degree to which domestic regulations in each member jurisdiction are aligned with the minimum requirements defined by the Committee. The aim of these reviews is to promote full and consistent implementation of the internationally agreed Basel Framework by identifying provisions in domestic regulations applicable to internationally active banks that are not in line with the letter and spirit of relevant standards of the Basel Framework. This is complemented by materiality analysis, which highlights the current and potential impact of any deviations in the regulations on financial stability and the international level playing field. One key objective is to help member jurisdictions to undertake reforms needed to improve the alignment of domestic regulations with the internationally agreed Basel standards. The focus of the assessments is

³ See www.fsb.org/what-we-do/implementation-monitoring/.

⁴ Basel Committee on Banking Supervision, *Core principles for effective banking supervision*, April 2024, www.bis.org/bcbs/publ/d573.pdf.

⁵ See Implementation and evaluation of the Basel standards, www.bis.org/bcbs/implementation.htm?m=2656.

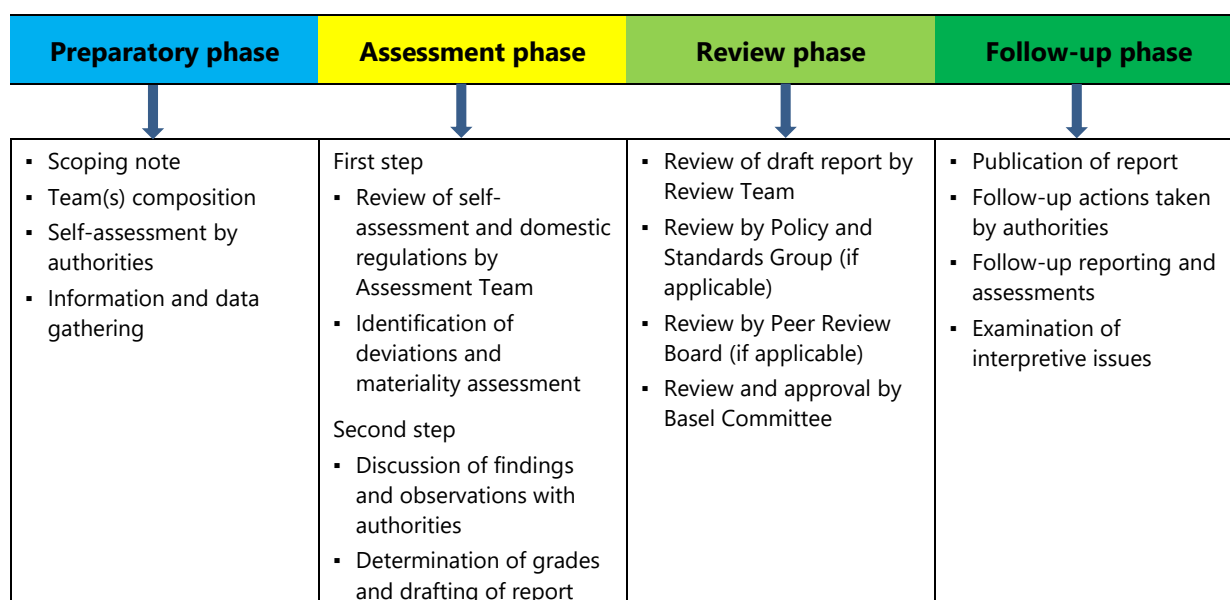
on domestic regulations. Examining issues relating to the functioning of regulatory frameworks and the effectiveness of implementation and supervisory frameworks is not the purpose of the RCAP.

The RCAP consistency assessments have four distinct phases: (i) the preparatory phase; (ii) the assessment phase; (iii) the review phase; and (iv) the publication of assessment reports and follow-up assessments. These are discussed in Sections 2–5. Graph 1 illustrates the main components of each phase.

This Handbook is drafted mainly on the basis of a single Assessment Team reviewing a single jurisdiction (a “jurisdictional assessment”) and a whole standard or set of standards. However, these general considerations also apply to cross-jurisdictional assessments (ie a single Assessment Team reviewing more than one jurisdiction) and targeted assessments of the implementation of individual provisions or components of a standard. More specific guidance for reviewing particular standards, including where the RCAP has adopted a cross-jurisdictional assessment model, is provided in Sections 6 and 7.

Phases of an RCAP consistency assessment

Graph 1



2 Preparatory phase

2.1 RCAP assessment questionnaires

Jurisdictions participating in an RCAP assessment will undertake a self-assessment well ahead of the actual assessment by an Assessment Team. The self-assessment will enable jurisdictions to start the necessary data collection for the Assessment Team early on and reduces time pressure on the involved authorities and banks in the assessed jurisdictions.

2.2 Establishing the RCAP teams

2.2.1 Team Leader

The selection of the RCAP Team Leader will be done by the Committee's Secretary General, taking into account any recommendation from the Committee's Head of Basel III Implementation. Team Leaders are typically Basel Committee members or officials of similar seniority from Basel Committee member authorities.

The role of the Team Leader is to manage the RCAP assessment, supported by the Secretariat.⁶ As such, the Team Leader will manage, guide and coordinate the work of the Assessment Team. The Team Leader will be responsible for delivering the RCAP assessment report and informing the Basel Committee of the outcome of the review. To fulfil this role, the Team Leader is expected to: (i) plan and support the work of the Assessment Team and Review Team as much as possible; and (ii) exercise an oversight role, with cooperation and assistance from the Secretariat, ensuring notably that the Assessment Team's deliberations focus on substance over form and remain within the scope of the review. Both roles are crucial to ensure the quality of the assessment delivered by the assessors. The Team Leader will liaise closely with the Secretariat on all strategic and policy issues relating to the assessment.

2.2.2 Assessment Team

The Assessment Team conducts the assessment, drafts the assessment report and determines the preliminary assessment grades. It comprises regulatory and supervisory experts drawn from the organisations of Committee members or observers.⁷ The selection of the Assessment Team members will be done by the Secretariat, in consultation with the Team Leader. The size and composition of the team will vary depending upon the scope of the assessment and the jurisdiction undergoing an assessment. The composition of the team should ensure that the Assessment Teams are independent from the assessed jurisdiction so as to avoid potential conflicts of interest.

The main objectives of the team selection will be: (i) obtaining high-quality expertise to cover all components of the standard being assessed; (ii) ensuring that selected members could work both as primary and secondary reviewers within the team, ensuring "four eyes" for each assessed component; and (iii) achieving appropriate geographic diversity and, where possible, language skills to assist in verifying any translations provided.

To help selecting assessors and ensure continued availability of high-quality experts, the Secretariat maintains a roster of experts to draw on to assemble Assessment Teams. The Secretariat will periodically ask the PSG, the Basel Consultative Group (BCG) and other relevant Committee expert groups

⁶ In practice, team leaders are often supported by one or two members of their own staff, though this is at the discretion of the team leader. The Secretariat works in close coordination with the staff of the team leader's institution and maintains primary responsibility for the administrative management of the RCAP.

⁷ Including the Basel Consultative Group.

to update the roster to ensure that the right expertise is available for upcoming assessments. All Committee members are expected to provide resources to support RCAP assessment work.

2.2.3 Review Team

Alongside the establishment of the Assessment Team, the Secretariat will also set up a Review Team for each assessment, typically comprising three or four members. The Review Team will be drawn from the PSG and other Committee working groups (notably the Supervision and Cooperation Group) and will also include a senior member of the Secretariat.⁸ The Secretariat should ensure that reviewers are independent from the assessed jurisdiction and Assessment Team members.

The Review Team is the primary review mechanism and, consistent with the substance over form principle, should focus on the material and potentially material findings of the report. The Review Team reviews the draft report before it goes to the Committee for review and approval and provides an opinion on how the substance over form principle has been met by the draft report eg by considering the proportionality between the identified deviations and gradings. The PSG is informed by the Team Leader about any issues related to the RCAP methodology and/or any issues of policy interpretation uncovered by the assessment.

2.2.4 Peer Review Board

The Peer Review Board (PRB) comprises the Chair of the Basel Committee, the Co-chairs of the PSG and the Committee's Secretary General. However, in the event that more than one of these members has an actual or potential conflict of interest with the jurisdiction being assessed, a separate PRB will be established. This will generally comprise Basel Committee members with no link to the jurisdictions being assessed.

The role of the PRB is to address any issues that the assessed jurisdiction, Assessment Team or Review Team may wish to escalate. The PRB should be consulted only on an as-needed basis and taking into account any recommendation from the Committee's Head of Basel III Implementation.

2.2.5 Secretariat support

Each RCAP assessment will be supported by the Basel Committee Secretariat. Member(s) of the Secretariat support the Team Leader, the Assessment Team and the Review Team as well as the authorities in the jurisdiction being assessed.

In addition, the Committee's Head of Basel III Implementation works closely with the relevant authorities and Team Leader on the RCAP scope and any issues as they may arise, to ensure that the assessment progresses smoothly and maintains its rigour. To avoid any conflict of interest, the Head of Basel III Implementation does not take part in validation effort by the Review Team. This individual's role is to act primarily as a facilitator between the Assessment Team and the assessed jurisdiction, to help ensure the consistency and completeness of each RCAP, and to assist on technical or policy matters as they may arise. The Head of Basel III Implementation also supports the PRB.

2.3 Confidentiality arrangements

The Assessment Team, Review Team, PSG and PRB will follow the confidentiality arrangements of the Committee. Preliminary assessment findings and grades are particularly sensitive and should be treated as confidential until they have been discussed and approved by the Committee. The Assessment Team, Team Leader and any members of staff of the Team Leader's organisation supporting the assessment

⁸ Though, to avoid any conflict of interest, not the Head of Basel III Implementation. See also Section 2.2.5.

(supporting members) will be subject to a specific RCAP confidentiality agreement that is agreed with the assessed jurisdiction.

2.4 Scoping note: agreeing the scope and timeline

The Team Leader and the assessed jurisdiction will agree on a scoping note before the start of the assessment work. This note specifies the scope of the assessment (ie the standards and RCAP components to be assessed), any specific details of the assessment process not covered by the general RCAP methodology, the sample of banks to be used for materiality testing and the timeline. The scoping note is shared with the Review Team for information.

2.4.1 Scope of assessment

The standards to be assessed in RCAP assessments will be identified by reference to specific sections of the Handbook, eg the standards for the Basel III revised risk-weighted assets (RCAP-RWA) and the leverage ratio framework (RCAP-LEV) are listed in Sections 6 and 7. These specific sections include the relevant chapters of the consolidated Basel Framework including any frequently asked questions (FAQs). The Basel standards are assessed line by line. The implementation of elements subject to national discretion in the Basel standards is out of scope of the assessment but included in the assessment report for information. FAQs are used only to clarify the intention and interpretation of the standards where the original text is unclear. They are not assessed in isolation. Therefore, an FAQ cannot be cited as the sole source of a deviation, but rather is only assessed in conjunction with the relevant Basel text that it clarifies. Similarly, direct implementation of an FAQ in domestic regulations is not treated as super-equivalent. Section 2.6 describes the process for assessing revised Basel standards where a jurisdiction has implemented a more recent Basel standard in advance of the implementation deadline.

The scope of the assessment may also include items listed for follow-up in earlier RCAP assessments, or other components that an assessed jurisdiction wishes to be reviewed again (eg if it has made several changes to improve the compliance of its regulations). Generally, all items listed for follow-up in previous assessment reports should be included in the scope of subsequent assessments (see Section 5.2.1). This should be discussed by the Team Leader and the assessed jurisdiction at an early stage, to ensure that Assessment Teams have the appropriate expertise.

2.4.2 Selection of sample

Normally, the sample of banks should constitute a minimum of 60% of banking assets⁹ of the banks in the jurisdiction that are subject to the Basel standard (or standards) under review. The focus of the Basel Framework is on internationally active banks, and therefore, the materiality assessment should, in principle, cover the internationally active banks in the jurisdiction. However, other banks may be included as well, for instance domestic systemically important banks. The sample should be representative of the various types of banks operating in the jurisdiction. The Secretariat may make recommendations on the choice of coverage of banks in a manner that will avoid potential selection bias on the part of the Assessment Team or the jurisdiction being assessed.

2.4.3 Timeline

A high-level timeline for a typical RCAP assessment is provided in Table 1. Each RCAP generally starts around twelve months before the publication of the report, with roughly three months in each of the preparatory, assessment and review phases. The month in which publication is planned is made public on the Committee's website.

⁹ For this purpose, banking assets includes both on-balance sheet and off-balance sheet assets. The relevant measure will be total exposures as calculated for the purpose of complying with the Basel leverage ratio standard.

Illustrative assessment timeline

Table 1

Initiator	Activity	Time to RCAP assessment report publication
Secretariat	Preparing the jurisdiction's self-assessment and providing the jurisdiction with the self-assessment table.	14–12 months
Secretariat	Selection of Team Leader (see Section 2.2.1) and approval by Committee's Secretary General.	12–9 months
Team Leader and Secretariat	Establishing the Assessment Team and a Review Team (see Sections 2.2.2 and 2.2.3).	9 months
Secretariat	Drafting the scoping note (see Section 2.4). The scoping note is discussed and agreed between the Team Leader and the assessed jurisdiction and transmitted to the Review Team for information.	9–6 months
Assessed jurisdiction	Submit the completed RCAP self-assessment to Secretariat (see Section 2.1).	8–6 months
Assessment Team and assessed jurisdiction	First step of the assessment phase (see Section 3.1). Exchange between the Assessment Team and the assessed jurisdiction on technical matters.	6–4 months
Assessment Team	Team meetings to discuss and agree preliminary findings. Subsequently, first draft of the assessment report prepared by the Assessment Team is shared with the assessed jurisdiction. Material/policy/special issues discussed by the Team Leader with the jurisdiction and the Head of Basel III Implementation; additional data and information requests sent to the jurisdiction.	6–4 months
Assessed jurisdiction	Additional data, information and clarifications sent to Assessment Team.	4–3.5 months
Assessment Team	Assessment work and report drafting continues. Second step of the assessment phase (see Section 3.2). Draft RCAP report and its findings along with the materiality assessment discussed and presented to the assessed jurisdiction. Draft report with preliminary assessment grades provided to the assessed jurisdiction for comments.	3.5–3 months
Assessed jurisdiction	Feedback provided on draft report. Cut-off date. Deadline for any changes to regulations.	3–2.5 months
Assessment Team	Draft report revised and circulated to the Review Team for comments.	2.5–2 months
Review Team	Review report and provide feedback to Team Leader and Assessment Team (see Section 4.1).	2–1.5 months
Team Leader, PSG and Secretariat	RCAP report finalised by the Team Leader. Submitted by the Secretariat to the PSG for information; PSG to discuss the report only when there are interpretative issues and/or methodological matters relating to the policy framework or the RCAP process (see Sections 4.1).	1 month
Secretariat	Report and views/recommendations by PSG (where applicable) submitted to the Committee for review and approval (see Section 4.2).	0.5 months
Basel Committee	Report published. Secretariat to follow-up on progress (see Section 5).	0 months

The detailed timeline for each assessment will be formulated by the Team Leader and the Secretariat in agreement with the jurisdiction being assessed. An important aspect of this is the cut-off date. The Assessment Team will take into account regulations and rectifications, provided these are issued before the cut-off date of the assessment. The cut-off date should ensure that there is sufficient time for the Assessment Team to assess the consistency of the finalised regulations before submitting the report to the Review Team.

Adjustments may be required to the timeline as the assessment progresses. Minor adjustments can be agreed between the Team Leader and the assessed jurisdiction. The process for handling longer

delays is set out in Section 2.5. Jurisdictions whose regulations are not published in English should also take into account the time needed to prepare translations, particularly during the preparatory phase.

2.5 Principles and process for handling delays to an RCAP jurisdictional assessment report

Since the adoption of the RCAP, there have been a limited number of situations in which a committee discussion of a draft jurisdictional assessment report has been delayed beyond the timetable agreed in the scoping note to accommodate domestic circumstances. Ordinarily, when there is no delay, amendments that are made after the scheduled cut-off date should be monitored via the RCAP assessment follow-up process (see Section 5.2.2). In these cases, such amendments do not affect the published assessment findings. In exceptional cases, however, a small delay can materially improve the prudential outcome. The principles to be followed while handling delays to the cut-off date and the date for submission of the assessment report to the Committee are set out below.

When a member jurisdiction plans to amend its domestic regulations but cannot do so in the scheduled expected timeframe or faces difficult and unforeseen challenges in completing the RCAP assessment in the time scheduled, the member can formally request a delay in the cut-off date and the date for submission of the assessment report to the Committee. Responsibility for recommending a delay to the Committee rests with the Team Leader, considering any recommendation from the Head of Basel III Implementation. The principal considerations the Team Leader should weigh are as follows.

- Promoting better outcomes: would the proposed amendments be legally binding, lead to a materially better prudential outcome and promote full and consistent implementation of the Basel Framework?
- Making a case for a delay: is there a sufficiently strong and specific reason for a delay related to local circumstances such as the complex nature of the proposed amendment, institutional factors or rule-making processes? Are there compelling reasons why it would be better for these amendments to be made before the cut-off date as opposed to afterwards?
- Limiting the delay and scope of the amendments: ordinarily, the extension of the assessment cut-off date and the consequent delay in a committee discussion should be limited to one quarter. Can the proposed amendments be achieved without significantly broadening the scope of the assessment?
- Meeting public commitments: can a delay sufficient to achieve a materially better prudential outcome be granted without breaching any public commitments made by the Committee?

2.6 Approach for assessing early adoption of revised Basel standards

When a jurisdiction has implemented the revised Basel standard or expects to finalise its implementation by the cut-off date of the assessment, it can request the assessment to be based on the revised Basel standard instead of the existing (and to-be-superseded) Basel standard.

Once the agreed implementation deadline of a revised Basel standard has passed, the jurisdictional RCAP assessments will be based on the revised Basel standard. Basel standards that are under revision or in consultation will not be part of the scope of a jurisdictional RCAP assessment.

3 Assessment phase

The role of the Assessment Team is to assess jurisdictions' compliance with Basel standards. Individual assessors review specific areas, based on their expertise, which feeds into an overall assessment of compliance for the assessed jurisdiction. The work of assessors is carried out according to a four-eyes principle (ie two Assessment Team members covering the same area, one acting as primary reviewer and the other as a secondary reviewer). Assessors will interact with officials in the assessed jurisdiction throughout the assessment phase. Written communications are sent by the Secretariat, after seeking any review by the Team Leader that may be necessary. The Assessment Team is collectively responsible for proposing grades for individual components and the overall grade. Assessment Team members will be responsible for delivering high-quality input into the RCAP assessment report. The work of the Assessment Team will be coordinated by the Team Leader with the assistance of the Secretariat.

3.1 First step of the assessment phase

The first step of the assessment phase consists of a rigorous off-site review based on the work undertaken by primary and secondary assessors and frequent discussions among the Assessment Team members.

The primary assessor will identify those parts of the domestic rules that are clearly compliant with the Basel standards while seeking to identify, without further evaluation, those parts that are super-equivalent, and identify for further consideration those parts that may be sub-equivalent (ie deviations). When considering whether a provision is a deviation, the primary assessor should flag anything not clearly compliant. The second assessor focuses on the work of the primary assessor and normally need not review the domestic regulation in its entirety. The second assessor reviews the list of identified preliminary deviations and super-equivalencies and considers whether any item should be removed. An example is that the language differs between the local and Basel texts, but the assessor concludes that the local text achieves the same outcome (or close enough to the same outcome to make no practical difference). The second assessor's work should typically result in a shorter list of preliminary deviations. This list of preliminary deviations is what goes back to the jurisdiction for further clarification or data collection. The primary assessor should take the lead on determining the data necessary, where relevant, to estimate the materiality of a deviation. The secondary assessor should assist, particularly for those deviations considered potentially material and on deviations requiring the use of expert judgment. At this stage, assessors are encouraged to be conservative and err on the side of including all preliminary deviations and seeking further clarification where they are unsure.

The four-eyes review process should ensure that the focus of the RCAP is to identify substantive issues rather than narrow wording differences. Assessors should pay careful attention that deviations are clearly explained in the report, and their materiality assessment substantiated and supported by data where available. Assumptions used to underpin the materiality assessment should be carefully explained. While a word-for-word comparison can be the starting point of the assessment – as differences in the choice of words may have a material effect – assessors should also take a step back and consider not only whether the assessed jurisdiction achieves the goals of the text but also the practical effect of deviations and put technical findings into the broader perspective. Questions that assessors should ask themselves include: "Is the difference in wording expected to lead to a substantially different outcome in practice?" and "How substantial is the impact compared with other findings in the assessment and in previous RCAP assessments?"

Maintaining a focus on substance over form should be a key element of the Team Leader's role during the assessment. Also, the Review Team should provide an opinion specifically on how this guidance to focus on substance has been met, which can be reflected in the draft RCAP report (see Section 2.2.3).

The first step of the assessment phase should at a minimum result in a list of preliminary deviations, additional data and clarification requests to be sent to the assessed jurisdiction for discussion ahead of the second step of the assessment phase.

3.2 Second step of the assessment phase

The second step of the assessment phase aims to ensure a correct understanding of issues related to the implementation of Basel standards identified during the first step of the assessment phase, by having further in-depth exchanges with relevant experts and the authorities responsible for the transposition of Basel provisions into domestic regulations. On-site visits and physical meetings with relevant experts from the assessed jurisdiction, should be considered where necessary or appropriate, during the second step of the assessment phase, subject to the Team Leader's decision and following discussion with the assessed jurisdiction and Secretariat.

Domestic banking regulators and supervisors are expected to be the main counterparts of the Assessment Team during the second step of the assessment phase. Virtual or physical meetings with other relevant parties (including the finance ministry or treasury, other regulatory agencies, industry representatives, accounting representatives, rating agencies or analysts) may take place to ensure that the Assessment Team collects a broad range of views and develops a sound understanding of local regulatory requirements and implementation issues. Virtual or physical meetings with the banking industry may also take place without the participation of representatives of the domestic authorities. The purpose of these industry meetings typically includes:

- discussing issues that could materially impact the quality and sustainability of implementation (these will be driven by off-site work by the Assessment Team and should not be bank-specific);
- understanding the integrity of the implementation process in the jurisdiction and the readiness of the industry;
- giving the industry an opportunity to exchange views on the broader Basel Framework and any unintended hurdles in implementation (including issues relating to a lack of clarity of Basel provisions); and
- informing the judgment of the Assessment Team on the materiality of deviations where data are not available or where deviations are not quantifiable.

3.3 Assessment methodology

The general principles underlying the assessment methodology are set out below.

- The assessment of consistent and complete implementation of the Basel standards will be based on:
 - a comparison of domestic regulations with the Basel standards to identify if all the required provisions of the standards have been adopted (ie completeness of the regulations); and
 - notwithstanding the form of local requirements, whether there are any differences in substance between the domestic regulations and the Basel standards (ie consistency of the regulations).
- The assessment is not a word-for-word comparison. The objective is to ensure that the substance of the specific Basel provision under review exists somewhere in the domestic regulation. That is, while a word-for-word comparison can be the starting point of the assessment – as differences in the choice of words may have a material effect – assessors should also take a step back and consider not only whether the assessed jurisdiction achieves the goals of the text but also the practical effect of deviations and the broader context of the assessment.

- The Assessment Team should focus on regulatory matters within the scope of the review. There are many pre-requisites to effective supervision, as set out notably in the principles and preconditions in the Basel Committee's *Core principles for effective banking supervision*.¹⁰ The Assessment Team should not assess these factors nor make judgments outside the scope of the review (eg judgments on the underpinning of national legal systems) in reaching a view on the compliance of domestic regulations with Basel standards.
- Consistent with the scope of the jurisdictional assessments, the Assessment Team is not expected to verify the actual implementation by banks if a regulation is compliant with the Basel provision.
- When a deviation is identified, a key driver for assessing consistency will be its materiality and impact, as described in Section 3.5. The component grades and overall grade are based on the assessed materiality and cumulative impact of the deviations, as described in Section 3.6.
- The assessment will seek to clarify the rationale for any identified deviations of the domestic provisions from the corresponding Basel standards, with a view to ensuring a clear understanding of the specificities and drivers of the local implementation. This will help stakeholders view the assessment in its proper perspective. However, these elements are not taken into account when assessing consistency and completeness beyond the scope of national discretion already specified within Basel standards.
- A single deviation may affect several components. For example, a deviation in the definition of exposures under the standardised approach to credit risk (a component of RCAP-RWA), may also apply in the internal ratings-based (IRB) approach to credit risk (also a component of RCAP-RWA) by virtue of the latter cross-referring to definitions in the former. In such cases, the Assessment Team should include the deviation and assess its materiality in both components, unless otherwise specified in the relevant section of this Handbook describing the specific RCAP.
- A deviation in a standard that is outside the scope of a certain RCAP may impact the standard that is included in the scope of the RCAP. For example, the net stable funding ratio (NSFR) standard cross-refers to the Liquidity Coverage Ratio (LCR) standard and so the impact of deviations in the latter can have an impact on the former. In such cases, where the standard under assessment is affected by deviations in other standards that have been identified through prior RCAPs, these should be included as deviations in the RCAP report of the standard under assessment. Where the standard under assessment may be affected by (potential) deviations in other standards, but these have not been confirmed through prior RCAPs, such (potential) deviations should be included as observations in the RCAP report of the standard under assessment and raised as follow-up items for future RCAP assessments if needed.
- Domestic measures that are stricter than the minimum Basel requirements are fully in line with the nature of the international agreements, which are intended to set minimum requirements, and will therefore be considered compliant. However, they will not be considered to compensate for deviations identified elsewhere.
- A distinction can be made between assessment findings, ie identified deviations, and observations. Observations highlight certain special features of the regulatory implementation of the Basel standards in the assessed jurisdiction. They are presented separately in the assessment report for contextual and informational purposes.

¹⁰ Basel Committee on Banking Supervision, *Core principles for effective banking supervision*, April 2024, www.bis.org/bcbs/publ/d573.pdf. Assessments of the implementation of the Core Principles and preconditions are primarily conducted by the International Monetary Fund and the World Bank.

3.4 Bindingness of regulatory documents

As noted above, the jurisdictional peer reviews assess the degree to which domestic regulations in each member jurisdiction are aligned with the minimum requirements defined by the Basel Committee. Laws and regulations provide a framework to set and enforce prudential requirements for banks. While legal and regulatory structures differ across jurisdictions, the general expectation is that Basel minimum prudential standards are implemented through laws and regulations which are legally binding and can be enforced effectively. It is important that these laws and regulations are clearly distinguishable from instruments used to provide guidance to which banks might not have to strictly adhere.

For the purpose of RCAP assessments, the regulations being assessed should encompass all domestic laws, regulations, rules, guidelines or any other documents implementing the Basel standards and deemed by law or in practice as binding on banks and the supervisory authorities. The list below defines criteria for the eligibility of instruments in RCAP assessments. The criteria aim to establish the legitimacy and “bindingness” of the instruments implementing the regulatory regime.

1. The instruments used are part of a well-defined, clear and transparent hierarchy of a legal and regulatory framework.
2. They are public and easily accessible.
3. They are properly communicated and viewed as binding by banks and supervisors.¹¹
4. They would generally be expected to be legally upheld if challenged and are supported by precedent.¹²
5. Consequences of failure to comply are properly understood and carry the same practical effect as for primary law or regulation.¹³
6. The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.
7. The substance of the instrument is expected to remain in force for the foreseeable future.

Key elements of Basel standards should be implemented through laws and regulations. Only interpretative issues and clarifications should be conveyed via FAQs, supervisory guidance or other ad hoc instruments. Assessments will be based, whenever possible, on the final domestic regulations implementing the Basel standards. If a jurisdiction is still implementing parts or all of the standard during the assessment phase, the Assessment Team can assess draft regulations being considered as part of the domestic rule-making process. However, the regulations must be finalised by the cut-off date to be eligible for the RCAP assessment.

Where a jurisdiction makes rectifications during an assessment to align its standards, the regulations must also be finalised by the cut-off date. Generally, such rectifications should also apply to banks no later than the cut-off date. However, where the authorities in the assessed jurisdiction consider it necessary to allow a short transitional period for banks to implement the amendments, this will not

¹¹ For the purpose of RCAP assessments, the assessment team should consider whether the regulated community believes that failure to comply would risk the regulator’s general displeasure and/or imply a specific sanction for non-compliance.

¹² In certain jurisdictions the principles of administrative law and their application to the circumstances of the adoption of a particular instrument will determine whether that instrument would be upheld by a court or not (eg whether the regulatory body exercised its powers properly and whether it has taken into account all relevant circumstances and disregarded irrelevant circumstances).

¹³ In certain situations, it may not necessarily undermine the binding nature of the instrument if the regulator nevertheless takes action that is inconsistent with it, for example in the case of a supervisory discretion that is allowed by the Basel Framework. In such cases, the assessment team must judge whether the regulator has applied the instrument in the spirit of the Basel Framework.

prevent the revised regulations being taken into account for the RCAP assessment. Such delays should in principle not exceed six months.

For RCAP purposes, the assessed jurisdiction should provide information, with its self-assessment, on the hierarchy of legal and regulatory instruments and the ways in which they are used. In arriving at its assessment, assessors may seek additional feedback from relevant third parties to evaluate the status of instruments other than laws and regulations. Assessment Teams can rely on the assessments of bindingness made in previous RCAP assessments where there has been no change to a jurisdiction's legal framework and where the same instruments are used.

3.5 Materiality assessment

The basis of materiality assessment of identified deviations is the impact on the reported prudential metrics of the RCAP sample banks (see Section 2.4). Materiality can be interpreted along two dimensions: (i) a financial-stability dimension; and (ii) a level-playing-field dimension. In addition, a view on materiality can be formed to ensure that the assessment is robust over time. This implies that teams should consider that the materiality of deviations can change over time, driven by factors such as refinements to the regulatory regime, the economic cycle, financial trends, and shifts in banking practices such as from standardised to advanced regulatory approaches.

The Assessment Team should classify any identified deviations as quantifiable or non-quantifiable. Quantifiable deviations are those whose materiality can be estimated in quantitative terms. The impact of non-quantifiable deviations is assessed using expert judgment. Assessment Teams are expected to be as consistent as possible in assessing materiality across both quantifiable and non-quantifiable deviations. The assessment will consider both the current impact and consequences and the potential impact in the future.

In areas in which quantitative evidence is lacking or is of doubtful relevance or quality, the Assessment Team may find it appropriate to take local circumstances into account. Judgment will be crucial when deviations are potentially material even if they are not currently material. In these cases, the Assessment Team is expected to adopt a conservative view. This principle applies to all materiality assessments, whether quantifiable or not and whether considering current or potential materiality.

3.5.1 Quantifiable deviations

Where a deviation is quantifiable, Assessment Teams should calculate the effect of the deviation on the reported prudential metrics relevant for the standard being assessed.

In general, for quantifiable deviations, bank-specific data will be requested to support the analysis of materiality. The data should reflect the full domestic implementation of the Basel standards and should not take into account phase-in arrangements. Where domestic regulations are assessed to be in line with the Basel standards, there is no requirement to provide data for materiality testing. Likewise, where the domestic regulations impose requirements on banks over and above the requirements in the Basel text, the provision of supporting data is optional.

In some cases, data limitations can hamper the materiality assessment of quantifiable deviations. Where a direct estimate of the impact is not possible, the Assessment Team should make every attempt to assess materiality based on proxies such as the level of exposure to the affected asset class, the number of banks engaged in specific business activities, data from public sources, impact studies or other similar information made available by the assessed jurisdiction. Teams are encouraged to use their collective expertise to form a best effort estimate of the impact on the prudential metrics of banks. This would allow the RCAP to arrive at a view on quantifiable deviations that is as consistent as possible.

3.5.2 Non-quantifiable deviations

Non-quantifiable deviations can be either deviations that are potentially quantifiable for which there are insufficient data to make a quantitative estimate or deviations that are inherently non-quantifiable. Some aspects of the Basel Framework are not quantifiable by nature. For instance, Pillar 1 deviations involving areas relating to governance around the use of internal models, or Pillar 2 or Pillar 3 deviations would fall in this category. The materiality of such deviations should be assessed based on the degree of uncertainty they are likely to cause, at present or in the future, regarding the accuracy of the capital measurement process and/or the quality of risk management when that is relevant. For instance, in the case of Pillar 2, the materiality of risks not captured under domestic regulations should be judged within the context of their importance for financial stability and the level playing field.

An assessment of non-quantifiable deviations and their impact is based largely on the expert judgment of Assessment Teams. The following considerations should be kept in mind when assessing such deviations, as well as the grade definitions given in Section 3.6.1:

- Scope of the deviation, eg in terms of elements of RWA affected (relative to total RWA), extent of exposures affected, number of parameters affected or business lines involved.
- Number and type of banks impacted by the deviation.
- Likely impact on the quality of risk management or the capital (or liquidity) measurement process.
- Extent of deviation in a provision. If the provision is missing entirely, its impact is likely to be higher as compared with the situation when only part of the provision is missing.
- Extent of impact on market discipline. In evaluating the impact of the non-quantifiable deviations and aggregating it with the quantitative impact of other deviations, Assessment Teams should apply expert judgment in a consistent manner.

3.5.3 Guidance on potential materiality and impact

An assessment of the potential materiality of a deviation will often require more judgment than reliance on data alone, especially concerning the scenarios under which a deviation becomes material and the likelihood of these scenarios. This section provides guidance on how to approach such an assessment on a sound and consistent basis.

A good starting point for approaching a deviation that may not be material today but may be in the future is to consider the following questions and examine whether there is a reasonable chance that the deviation will assume significance within the next three years:

1. Under what realistic scenarios would the deviation become material?¹⁴
2. What is the likelihood of the scenarios occurring within the assessment horizon, notably with regard to economic or financial system trends?
3. What specific structural factors could make an assessment finding less likely to become material? Are there any reasons to believe that these structural factors could change?
4. Which banks in the RCAP sample are likely to be affected the most given the nature of the deviation? If the deviation only affects banks specialised in certain businesses, do they pose systemic risks or raise international competitive equity issues?
5. How large could the potential impact of the deviation be?

¹⁴ A scenario is a possible future event or environment, either at a point in time or over a period of time. A projection of the effects of a scenario over the time period studied can either address a particular firm or an entire industry or national economy.

When gauging potential materiality, the following should be considered:

- *Quantification*: where possible, the team should quantify the impact under different realistic scenarios.
- *Data sources*: if available, teams should inform their assessment by well-regarded third-party analyses. For example, migration matrices from rating agencies or economic forecasts by the IMF or the Organisation for Economic Co-operation and Development (OECD) may be helpful in estimating the probability of a scenario.
- *Accountability*: all assumptions, inputs and calculations used in the analysis need to be documented in appropriate detail. Documentation should be sufficient to allow the Review Team to review the materiality analysis independently.
- *Expert judgment*: in light of the judgment that must be exercised in estimating probabilities of scenarios occurring, the Assessment Team should also overlay expert judgment on their assessment of potential materiality.
- *No changes to regulation*: the Assessment Team should not consider the possibility of changes to regulation after the cut-off date, even if they are planned at the time of the assessment. Similarly, the Assessment Team should not assess the possibility of future changes to the jurisdiction's legal framework. However, the effect of existing regulations or legislation coming into force may be a relevant factor (eg a jurisdiction has enacted laws expanding or limiting the scope of activities permitted for banks before the cut-off date, but those laws have not yet come into effect, or are still in a transitional period). If there are draft laws or regulations changing the provisions being assessed, they should not be included in the scope of the assessment but may be considered as an item for follow-up.

Deviations that are not potentially material will still be reported in the assessment report. These deviations are considered not material. In doing so, the Assessment Team must explain why a deviation is not considered potentially material.

3.5.4 Guidance on transitional arrangements and delayed implementations

Transitional arrangements included in jurisdictional regulations that do not exist in the Basel standards or are longer than specified therein, should be classified as deviations. The materiality of such deviations shall be assessed as of a date (the "transitional assessment date") that will be specified in the relevant section of the RCAP Handbook.

The Assessment Team shall evaluate and reflect in the assessment report how the materiality of the transitional deviations will evolve after the transitional assessment date as the impact of transitional arrangements diminish. This evaluation will be based on the RCAP sample banks' most recent balance sheet composition.

In case a jurisdiction has not published the final rules for all the components (applicable to the jurisdiction) included in the RCAP's scope as of the transitional assessment date, the jurisdiction will be considered non-compliant (NC). This assessment grade by default is temporary and published in the "summary of member assessments" on the BIS website for the RCAP jurisdictional assessments.¹⁵ The NC grade by default will be removed once the jurisdiction publishes the final rules and will be replaced with a "to be determined" (TBD) grade until the RCAP assessment is completed.

¹⁵ *RCAP Jurisdictional assessments: regulatory implementation consistency* available at www.bis.org/bcbs/implementation/rcap_jurisdictional.htm.

3.6 Assigning grades

3.6.1 Compliance scale

The outcome of the assessment process takes the form of an overall assessment of the compliance of the jurisdiction's regulation with the defined Basel standards and assessments of the compliance of the jurisdiction's regulation for each of the key components of the standard being assessed. All assessments will use a four-grade scale, both at the level of components and at the overall level. These grades are defined in Table 2.

Assessment grades		Table 2
Grade	Definition	
Regulation is compliant with Basel standards	No deviations are identified or in aggregate the identified deviations are assessed as having no impact on financial stability or international level playing field.	
Regulation is largely compliant with Basel standards	In aggregate, the identified deviations are assessed as having a limited impact on financial stability or the international level playing field.	
Regulation is partially non-compliant with Basel standards ¹⁶	In aggregate, the identified deviations are assessed as having a significant impact on financial stability or the international level playing field.	
Regulation is non-compliant with Basel standards	The Basel standards have not been adopted or in aggregate the identified deviations are assessed as having a severe impact on financial stability or the international level playing field.	

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 however been adjusted to take into account the different nature of the two exercises. In addition, components that are not relevant to an individual jurisdiction may be assessed as non-applicable (eg components relating to advanced approaches that have not been implemented). Regarding the compliant grade, an assessment of "no impact" can include cases in which the probability of an impact on financial stability or the international level playing field is assessed to be very low.

To avoid any misunderstanding about the level of compliance, especially between the partially non-compliant and non-compliant grades, the press release that accompanies the publication of the assessment reports will clarify the positioning of the assessed jurisdictions' overall grade, eg with the following wording: *"The overall grade for [name jurisdiction] was therefore assessed as [compliant, which is the highest overall grade; largely compliant, which is one notch below the highest overall grade; partially non-compliant, which is one notch above the lowest overall grade; or non-compliant, which is the lowest overall grade]."* Also, the presentation of the overall grade will be supplemented by clear and concise text spelling out the weaknesses and strengths in the jurisdiction's compliance or non-compliance that have contributed to the overall grade.

3.6.2 Grading methodology

Grade assignments should be based largely on the impact of the identified deviations between the formal published texts of local rules and regulations, and the Basel standards. Section 3.5 discusses the RCAP methodology for assessing materiality.

Assessment Teams must not use areas of super-equivalence to offset the impact of deviations from the Basel standards.

¹⁶ The Committee revised the name of the third grade in 2025 to 'partially non-compliant', which was formerly called 'materially non-compliant'.

Once the materiality of the individual deviations has been determined, the Assessment Team should determine the assessment grades for each component. The following three-step approach should guide this process:

1. For each component, the cumulative impact of the quantifiable deviations is calculated for the purpose of the preliminary component grade.
2. For each component, the cumulative impact of non-quantifiable deviations is evaluated. The preliminary grade is then adjusted to reflect these additional deviations. As the focus is on the cumulative materiality of the deviations, the Assessment Team should not average out between the quantifiable and non-quantifiable deviations, ie the grade derived in step 1 should be kept the same or lowered.
3. A final check is applied to ensure that the resulting component grade is consistent with the description of the grade. Any new consideration affecting this judgment should be documented and explained in the assessment report.

Having determined the component grade, the Assessment Team should determine the overall grade following the four steps below. In aggregating results for different deviations within and across key components, judgment will be critical in assessing their potential interactions and relative importance.

1. The cumulative impact of all quantifiable deviations is calculated for the purpose of assigning a preliminary grade.
2. The cumulative impact of all non-quantifiable deviations is assessed. Again, the grade derived under step 1 can only be kept the same or lowered, but not improved.
3. The guidance is applied that the overall grading cannot be higher than one notch compared with the worst component grade.¹⁷ However, this guidance should be considered as a “soft expectation” rather than a mechanical rule in order to better allow the Assessment Team to exercise its judgment and consider the broader context.
4. A final check is applied to assess whether the resulting overall grading is consistent with the description of the grade. Any new consideration that plays a role for the assignment of the final grade should be appropriately documented and explained in the assessment report.

In step 2 of each of the processes above, the impact of quantifiable and non-quantifiable deviations will be additive at the level of both the component and the framework when determining assessment grades.

The same grading methodology applies when reviewing grades as part of follow-up assessments (see Section 5.2.1).

The guidance for assessing materiality and determining component grades and the overall grade set out in this section recognises that all RCAP assessments are ultimately based on the collective judgment of the Assessment Team. While it focuses on benchmarks, it is not meant to force RCAP assessments into becoming mechanical exercises. Indeed, assessors are expected to use regulatory and supervisory common sense as they apply it. They should feel free to adapt it as needed, provided they describe and explain their adjustments in the RCAP report.

Beyond this guidance, the assessment process has built-in checks and balances to ensure that materiality determination and grading assignment are fair and consistent. These include the scoping note, the four-eyes review within each Assessment Team, ongoing involvement of the Committee’s Head of Basel III Implementation across all RCAPs and the review process described in Section 5.

¹⁷ For example, a jurisdiction that has one component assessed as partially non-compliant cannot get an overall grading higher than largely compliant.

3.7 Interpretative issues

Jurisdictional assessments inform the Basel Committee about implementation challenges and interpretative issues that member jurisdictions and Assessment Teams come across when assessing the consistency of domestic regulatory frameworks. Specifically, the assessments identify areas where further clarification is needed to ensure a consistent implementation.

Overall, the aim is to clarify interpretative issues as promptly and accurately as possible. Hence, whenever possible, interpretative issues should be clarified during the assessment. Where an interpretative issue cannot be resolved during an assessment, the issue may be scoped out from the assessment and listed for further review by the Committee. The Committee can decide to direct the matter to the PSG after discussing the assessment report (see also Section 5.2.3).

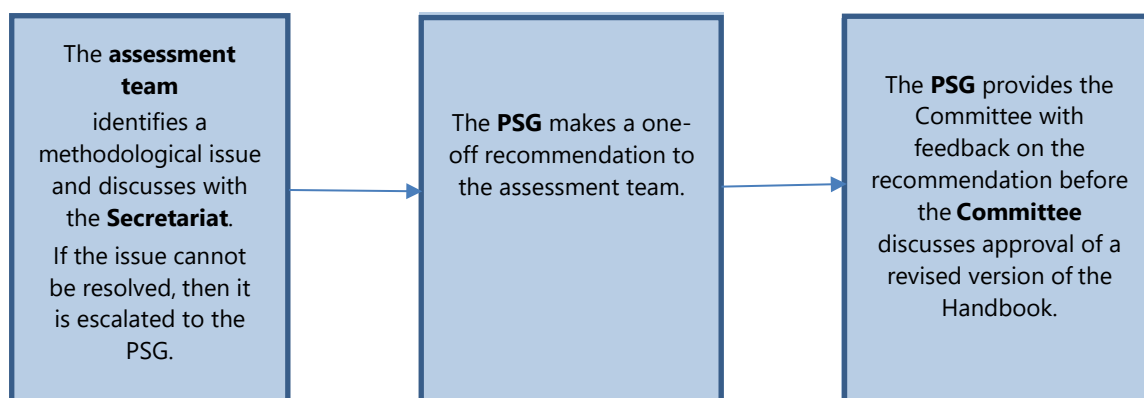
3.8 Amendments or extensions of the RCAP methodology

In the course of a consistency assessment, methodological questions may arise. In such a case, the Secretariat and the Team Leader, after discussion with the Committee's Head of Basel III implementation, will propose a course of action to the PSG. The PSG then determines the approach for the purposes of the ongoing assessment and makes a one-off recommendation to the Assessment Team. If there is sufficient time and the issue is not unduly sensitive, feedback from PSG should be submitted to the Committee along with the draft assessment report.

Before a new process or new criteria can be incorporated in the Handbook and become a precedent for subsequent RCAPs, it must be reviewed and approved by the PSG. If sufficiently important, or different from one-off recommendations that the PSG has given in prior RCAPs, these changes should then be forwarded to and approved by the Basel Committee. Once agreed by the PSG and/or the Committee as appropriate, the methodology will be updated and included in the Handbook.

Flow chart summarising methodology changes during an assessment

Graph 2



3.9 Drafting the RCAP report

Standard parts of an RCAP report can be drafted during the first step of the assessment phase. These include the background information relating to the regulations and banking system of the assessed jurisdiction. The Secretariat will prepare the first draft of these sections based on input from the assessed jurisdiction.

Some parts of the report (eg data, and annexes included for information only) are completed by the authorities of the assessed jurisdiction. The Secretariat will suggest templates to the assessed jurisdiction during the first step of the assessment phase. These will be completed by the jurisdiction ahead of the second step of the assessment phase (though some quantitative information may have to be updated prior to publication).

Assessment Teams should aim to send a list of the preliminary findings to the assessed jurisdiction prior to the second step of the assessment phase. Where possible, this should be in the report format, so that the report can be easily updated and presented to the authorities of the assessed jurisdiction at the end of the assessment phase.

Jurisdictions being assessed will be given an opportunity to comment on the draft report before the review phase. As part of this process, the assessed jurisdiction will have the opportunity to present its views on the findings of the assessment and have them reflected in a separate section of the report. Comments provided by assessed jurisdictions will be carefully considered by the Assessment Team, who should be prepared to explain how they have dealt with the major comments. However, the assessment report remains an expert report of the Assessment Team and should not become a matter of negotiation between the Assessment Team and the authorities in the assessed jurisdiction.

Teams may list contextual observations regarding the implementation of the Basel standards separately in the assessment report. Such observations do not indicate sub-equivalence but are considered compliant with the Basel standard and do not have a bearing on the assessment outcome.

The annexes to an RCAP report include the information listed below. Annexes specific to the assessment of individual standards are listed in Sections 6 and 7.

- Assessment and Review Team members.
- List of Basel standards used in the assessment referencing the consolidated Basel Framework.
- Domestic regulations implementing the relevant Basel standards.
- Summary of the materiality assessment.
- List of rectifications made during the assessment (if applicable).
- Areas for further guidance from the Basel Committee (if applicable).
- List of issues for follow-up RCAP assessments (if applicable).
- Areas in which a jurisdiction's rules are stricter than the Basel standards (if applicable).

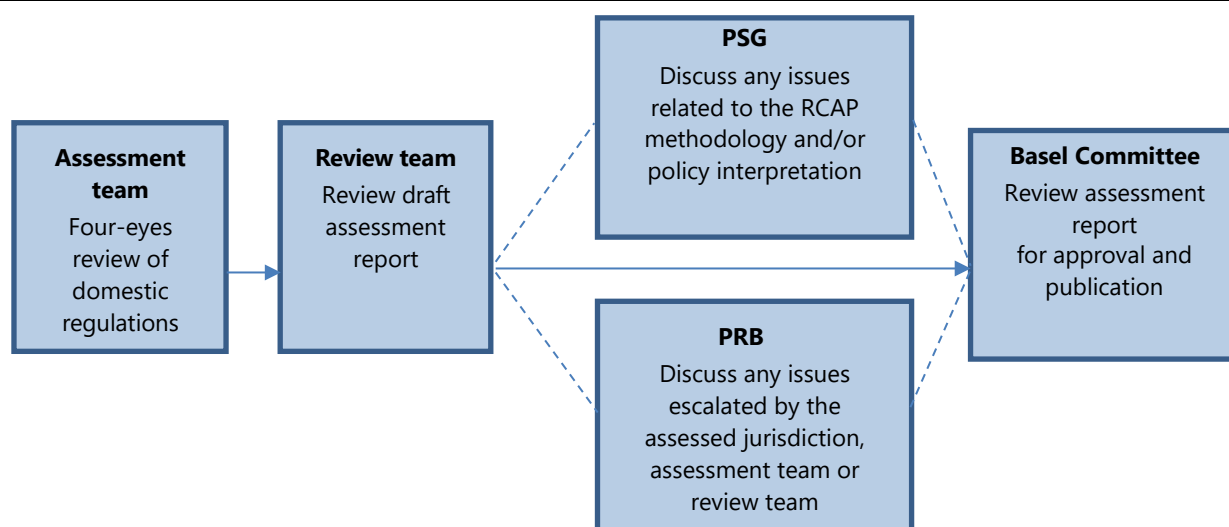
As noted in Section 5.2.1, any follow-up assessments should generally be described in a separate report, to make it easier for stakeholders to track changes to the assessments of individual standards.

The Basel Committee has the final responsibility for approving jurisdictional assessment reports (see Section 4.2).

4 Review phase

Flow chart of review process

Graph 3



4.1 Review Team and PSG

The Review Team will review the draft report before it goes to the Committee for review and approval. Comments raised by the Review Team that are related to the RCAP methodology and/or policy interpretation will be shared with the PSG.

The Review Team should provide an opinion specifically on how the focus on substance has been met, which can be reflected in the draft assessment report, eg by considering the proportionality between the identified deviations and the grades and whether the assessment is balanced and sufficiently supported by analysis and consistent with previous assessments. The Assessment Team addresses the Review Team's material comments in the draft report, where applicable, and informs the Review Team about how their comments were addressed.

The PSG receives the draft assessment reports (without grades) and, where applicable, provides feedback to the Team Leader and Assessment Team.¹⁸

The Review Team and PSG can solicit their technical experts to discuss some parts of the draft assessment reports provided these experts adhere to the Committee's confidentiality agreements of the Committee. Review Team members can also request access to underlying assessment information subject to the appropriate confidentiality arrangements.

4.2 Peer Review Board and the Basel Committee

The PRB is an escalation mechanism, which should be used only on an as-needed basis, to discuss matters where the assessed jurisdiction, Assessment Team or Review Team may wish to escalate an issue.

The Basel Committee has the final responsibility for approving jurisdictional assessment reports. The assessment reports are approved by consensus. If full consensus cannot be reached during the Committee meeting to which the report is presented, minority views will be footnoted in the report. The

¹⁸ The reports exclude the assessment grades following decisions by the Committee in December 2012 and March 2014.

jurisdiction, which is the subject of the draft assessment report is being discussed will be given an opportunity to comment on the draft report during the Committee meeting but will not take part in decision-making related to that report.

5 Publication and follow-up of RCAP assessments

5.1 Publication

After formal approval by the Committee, the report, including the response from the assessed jurisdiction, will be published on the Committee's website. The Committee member from the assessed jurisdiction will also be invited to publish the report on their website.

5.2 Follow-up

The RCAP follow-up processes allow the Committee to keep abreast of continuing efforts by its members to implement Basel standards. The aim is to provide some continuity between assessments as well as a foundation for more tailored and streamlined implementation follow-up. Further, it will improve the quality of reporting to the G20, the FSB and other external stakeholders on progress with implementation of the Basel Framework. Above all, the process is intended to help member jurisdictions to systematise and communicate their own monitoring efforts at the national level. To support the objective of a consistent implementation of Basel standards, the PSG should periodically report to the Committee on its progress in addressing interpretive issues (see Section 5.2.3) and on any common observations or lessons learnt once a full round of assessments is completed.

There are three kinds of RCAP follow-up: (i) items listed by the Assessment Team in RCAP reports as issues that should be reviewed by future Assessment Teams in subsequent RCAP assessments; (ii) reporting by jurisdictions on steps taken to address RCAP findings; and (iii) interpretive issues, which should be reviewed by the Committee or its expert groups.

5.2.1 Items listed for follow-up in RCAP reports

Issues identified by Assessment Teams for follow-up in future RCAP assessments are listed in the RCAP reports. These items should generally be limited to deviations classified as having a material or a potentially material impact. Follow-up assessments then focus on re-assessing the materiality of these deviations and assessing any rectifications or amendments undertaken by the jurisdiction following publication of the assessment report. An item listed for follow-up that does not relate directly to a material or potentially material deviation, including an item listed as an observation, should be highlighted during the review process.

Generally, items listed for follow-up are included in the scope of subsequent RCAP assessments (see also Section 2.4). This should be discussed by the Team Leader and the assessed jurisdiction at an early stage, to ensure that Assessment Teams have the appropriate expertise. Only in exceptional circumstances, where the items listed for follow-up have no connection to the scope of the current assessment and where it is extremely challenging to find assessors with the appropriate mix of expertise, should items for follow-up be excluded from the scope of subsequent assessments. The final decision on the scope of the assessment rests with the Team Leader, who should consult the Committee's Head of Basel III Implementation.

Where items for follow-up are included in the scope of subsequent assessments, they should generally involve a re-assessment of the relevant component and its grade. Where new regulations have been issued, the Assessment Team should review these against the Basel standards. Where regulations have not changed, Assessment Teams reviewing items for follow-up need not repeat the line-by-line

assessment of the previous team but may instead focus on the deviations previously identified. In particular, the Assessment Team should consider whether revisions to the materiality assessment are warranted, along with the component grade.¹⁹

Assessment Teams should also consider whether their review of the items for follow-up presents any reason to change the overall grade. In some cases, there may be a clear justification for a change. For example, a material deviation listed for follow-up may have been rectified, leading to the improvement of a low component grade which had previously acted as a constraint on the overall grade. On the other hand, a potentially material deviation may not have been rectified and instead have become material, leading to a downgrade of the component grade to one which now acts as a constraint on the overall grade. However, in many cases, the component being reviewed may not dominate the overall grade and its impact on the overall grade may be difficult to assess in isolation. In such cases, Assessment Teams may note that they did not see a clear reason for changing the overall grade.

The Assessment Team's review of items listed for follow-up should generally be described in a separate report, to make it easier for stakeholders to track changes to the assessments of individual standards.

Assessed jurisdictions may also request follow-up assessments on any components reviewed in previous assessments, even if they have not been listed as an item for follow-up. A jurisdiction may consider this to be beneficial where it has implemented several regulatory reforms on a given topic. This should be discussed with the Team Leader at the scoping stage (see Section 2.4).

5.2.2 Reporting on follow-up by assessed jurisdictions

Assessed jurisdictions have the opportunity to take follow-up actions to address the deviations from the Basel standards identified in the assessment report, with the ability for jurisdictions to request a revision to their assessment grade(s) where the changes are considered to be significant. The reporting of post-assessment follow-up actions to the Secretariat is mandatory only in the case of a change to the domestic regulations. Such reporting should explain how the deviations were addressed including the new or amended domestic regulations that have been enacted by the assessed jurisdiction.

Where this reporting is accompanied by a request from the assessed jurisdiction to revise its assessment grade(s) in a timely manner (eg before subsequent RCAP assessments), the Secretariat will assess whether the new or amended domestic regulations meet the requirements set out in the Basel Framework and, if appropriate, close the findings raised in the assessment report. Based on this assessment, the Secretariat will recommend a revision to the jurisdiction's assessment grade(s). If the Committee agrees with this recommendation, an updated version of the assessment report will be published on the Basel Committee website (alongside the original assessment report).

5.2.3 Interpretive issues

Following the Committee discussion on the RCAP report, any interpretative issues highlighted should be swiftly submitted to the PSG for follow-up upon the Committee's decision. Whenever required, the standard policy-making process is followed: the PSG decides to assign the interpretive issue to one of the Committee's expert groups for clarification as soon as possible (eg through an FAQ or a proposal for amendment of the Basel standard). Subsequently, the FAQ or policy amendment is discussed by the PSG. If the PSG reaches an agreement on how a specific interpretive issue would be addressed, it should be submitted to the Basel Committee for approval. Depending on the nature of the issue, the Committee can approve for publication or require a public consultation on revisions to a standard before giving final

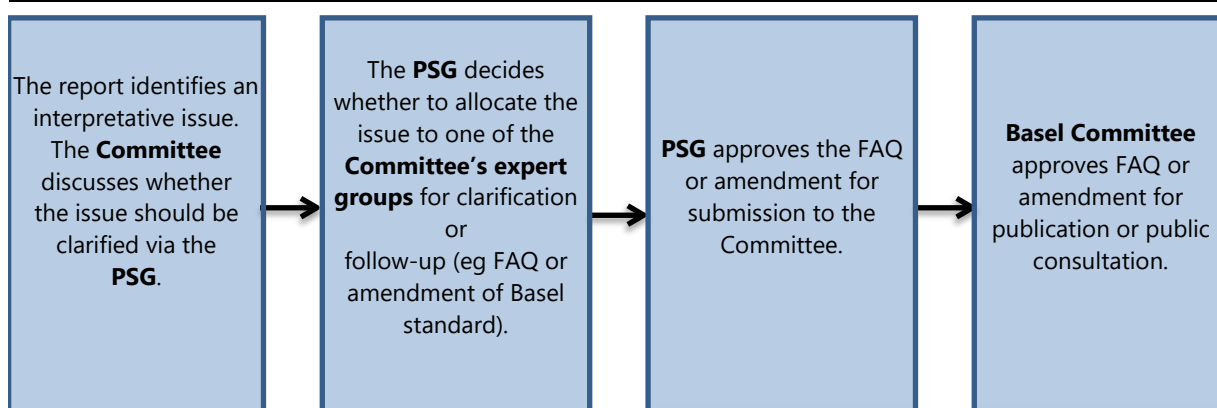
¹⁹ Where a jurisdiction has not issued new regulations and does not intend to address the deviation, follow-up work will normally only involve a review of the materiality and its effect on the component grade.

approval. If the PSG cannot reach an agreement within a reasonable time frame, the PSG should seek direction from the Committee on whether, and if so how, to continue pursuing the matter.

The outcome of this process will not result in retrospective revisions to grades of RCAP assessments already published where the issue was scoped out from the assessment and listed for further review by the Committee.

Flow chart of interpretive issues

Graph 4



6 RCAP-RWA: assessment of Basel III revisions to RWA

6.1 Scope

The RCAP-RWA assesses the member jurisdictions' compliance with the Basel III revisions to RWA published between 2017 and 2020. The scope of RCAP-RWA will include:

- The revisions to RWA published by the Committee in December 2017 and certain related disclosure requirements published by the Committee in December 2018.
- The revised minimum requirements for market risk published by the Committee in January 2019.
- The targeted revisions to the credit valuation adjustment risk framework published by the Committee in July 2020.

The assessments will be based on the relevant chapters of the consolidated Basel Framework as listed in Table 3 and would cover eight components as listed in Table 4. Assessed jurisdictions will receive a grade for each of these components as well as an overall grade.

The assessment reports shall clarify that the overall grade reflects the level of compliance with the 2017-20 revisions to RWA but not with all earlier revisions to components of the framework (eg the revised securitisation framework and the standardised approach for measuring counterparty credit risk exposures) nor with the components that have already been assessed and that have not been revised since (eg the scope of application and the definition of capital).

Chapters of the Basel Framework assessed in RCAP-RWA

Table 3

	Chapter
Revised standardised approach for credit risk	CRE20-22 Standardised approach CRE90 Transition
Revised IRB approach for credit risk	CRE30-36 IRB approach
Minimum capital requirements for market risk	RBC25 Boundary between the banking book and trading book MAR10-12 Definition MAR20-23 Standardised approach MAR30-33 Internal model approach MAR40 Simplified standardised approach MAR90 Transitional arrangements MAR99 Application guidance
Targeted revisions to the credit valuation adjustment risk framework	MAR50 Credit valuation adjustment framework
Revised operational risk framework	OPE10 Definitions and application OPE25 Standardised approach
Output floor	RBC20 Calculation of minimum capital requirements RBC90 Transitional arrangements
Disclosure requirements (key metrics related to RWA and the risk-based capital ratio, disclosure requirements for modelled and standardised RWA)	DIS20 (Template KM1, row 4-12. and OV1) and DIS21

Graded components in RCAP-RWA

Table 4

	Grade
Overall grade	X
Revised standardised approach for credit risk	X
Revised internal ratings-based approach for credit risk	X
Revised standardised approach for market risk	X
Revised internal models approach for market risk	X
Revised framework for credit valuation adjustment	X
Revised standardised approach for operational risk	X
Output floor (transitional arrangements and calculation of risk-based capital requirements)	X
Disclosure	X

Assessment scale: C (compliant), LC (largely compliant), PNC (partially non-compliant) and NC (non-compliant).

6.2 Design

The RCAP-RWA assessments are designed as jurisdictional assessments ie peer reviews undertaken by a team of technical experts reviewing the implementation in a single jurisdiction. The assessments will cover all Basel Committee members. Teams will typically comprise six assessors, in addition to the Team Leader.

6.3 Methodological considerations specific to RCAP-RWA

RCAP-RWA assessments should be conducted following the general assessment methodology set out in Section 3.

Implementation delays and transitional arrangements are treated according to Section 3.5.4, with the transitional assessment date set at 1 January 2028.

The numerator of the risk-based capital ratios, ie the definition of capital, was assessed in the previous RCAP-Capital assessments conducted during the period 2012-16. As such, the definition of capital is not in the scope of the RCAP-RWA. The reports will state clearly that the definition of capital did not form part of the assessment and provide a cross-reference to the RCAP-Capital reports if deviations were found to exist in these reports that could have an impact on banks' reported risk-based capital ratios.

In order to recognise the complementary role of the LEV and interaction between the LEV and RWA standards, the LEV and RWA jurisdictional assessment reports shall mention as background information whether and to what extent the LEV or RWA is binding for the RCAP sample banks. However, such information shall neither affect the quantitative assessment of deviations nor the expert judgement when determining the overall grade.

Given that deviations in the standardised approaches will be captured in assessments of the standardised approach components of the RCAP, the assessment of the output floor will focus exclusively on the impact of deviations in the specification of the output floor. This will include deviations relating to how the output floor is calculated and calibrated, output floor specific transitional arrangements, and any changes to standardised approaches that are only applied in the context of calculating the output floor. The effect of the output floor means that the impact of individual deviations cannot simply be added together when assessing materiality for the overall grade. For example, there may be multiple deviations in the various standardised approaches that have no impact on a bank when assessed individually because the output floor is not binding. But, when the deviations are taken together they may result in the output floor becoming binding and impacting the bank's RWA. This issue is addressed while assigning the overall grade by assessing the impact of the removal of all deviations on total post-floor RWA simultaneously.

6.4 Report

RCAP-RWA reports include the following annexes in addition to those listed in Section 3.9:

- Information on the risk-based capital of the banking system in the jurisdiction being assessed.
- List of approaches not allowed by the assessed jurisdiction's regulatory framework.

7 RCAP-LEV: assessment of Basel leverage ratio framework

7.1 Scope

The RCAP assessments of the leverage ratio framework (RCAP-LEV) assess the completeness and consistency of domestic frameworks with the Basel standards. The scope for RCAP-LEV will include:

- The revised leverage ratio as published by the Committee in December 2017 that includes the various refinements to the 2014 definition of the leverage ratio exposure measure. These refinements include modifying the way in which derivatives are reflected in the exposure measure and updating the treatment of off-balance sheet exposures to ensure consistency with their measurement in the standardised approach to credit risk.
- The June 2019 revision to the leverage ratio related to the treatment of client cleared derivatives.
- The leverage ratio globally systemically important bank (G-SIB) buffer introduced by the 2017 reforms. The G-SIB buffer must be met with Tier 1 capital and is set at 50% of a G-SIB's risk-weighted higher-loss absorbency requirements.

- The disclosure requirements for the leverage ratio, including the key prudential metrics related to that framework. This will capture the revisions to the LEV disclosure requirements published by the Committee in June 2019 (the requirements for banks to disclose their leverage ratios based on quarter-end and on daily average values of securities financing transactions).

The numerator of the risk-based capital ratios, ie the definition of capital, was assessed in the previous RCAP-Capital assessments conducted during the period 2012-16. As such, the definition of capital is not in the scope of the RCAP-LEV. The reports will state clearly that the definition of capital did not form part of the assessment and provide a cross-reference to the RCAP-Capital reports if deviations were found to exist in these reports that could have an impact on banks' reported risk-based capital ratios.

In order to recognise the complementary role of the LEV and interaction between the LEV and RWA standards, the LEV and RWA jurisdictional assessment reports shall mention as background information whether and to what extent the LEV or RWA is binding for the RCAP sample banks. However, such information shall neither affect the quantitative assessment of deviations nor the expert judgement when determining the overall grade.

The assessment will be based on the relevant chapters of the consolidated Basel Framework as listed in Table 5 and will cover four components as listed in Table 6. Assessed jurisdictions will receive a grade for each of these components as well as an overall grade.

Chapters of Basel Framework assessed in RCAP-LEV		Table 5
	Chapter	
Definitions and application	LEV10	
Calculation	LEV20	
Exposure measurement	LEV30	
Buffer requirements for global systemically important banks	LEV40	
Transition	LEV90	
Disclosure requirements (key metrics related to leverage ratio and disclosure requirements for the leverage ratio)	DIS20 (Template KM1, rows 13-14d) and DIS80	

Graded components in RCAP-LEV		Table 6
	Grade	
Overall grade	X	
Definitions and application, and calculation	X	
Exposure measurement	X	
Buffer requirements and transitional arrangements for global systemically important banks	X	
Disclosure requirements	X	

Assessment scale: C (compliant), LC (largely compliant), PNC (partially non-compliant) and NC (non-compliant).

7.2 Design

The RCAP-LEV assessments are designed as jurisdictional assessments, ie peer reviews, undertaken by technical experts reviewing the implementation in a single jurisdiction. The assessments will cover all Basel Committee member jurisdictions. Typically, several jurisdictions will be assessed simultaneously by a single Assessment Team comprising four assessors in addition to the Team Leader.

7.3 Methodological considerations specific to RCAP-LEV

In general, the RCAP-LEV assessments should be conducted in line with the methodology set out in Section 3.

Implementation delays and transitional arrangements are treated according to Section 3.5.4, with the transitional assessment date set at 1 January 2026.

7.4 Report

RCAP-LEV reports include the following annex in addition to those listed in Section 3.9.

- Information on the leverage of the banking system in the jurisdiction being assessed.