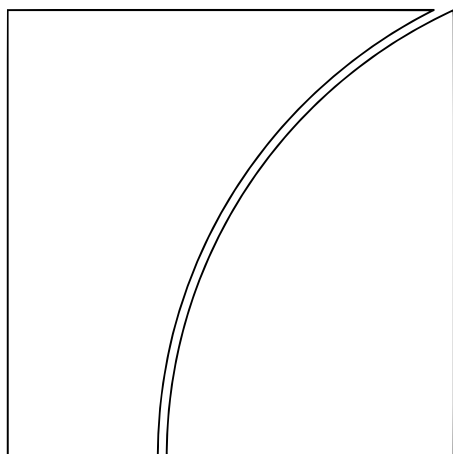


Basel Committee on Banking Supervision

RBC

Risk-based capital requirements

This standard describes the framework for risk-based capital requirements.



BANK FOR INTERNATIONAL SETTLEMENTS

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RBC20

Calculation of minimum risk-based capital requirements

This chapter sets out the minimum regulatory capital requirements under the risk-based framework and how banks must calculate risk-weighted assets.

Version effective as of 01 January 2023

Changes to output floor and approaches available to calculate credit and operational risk capital requirements, as set out in the December 2017 Basel III publication, including revised implementation date announced on 27 March 2020. Also, cross references to the securitisation chapters updated to include a reference to the chapter on NPL securitisations (CRE45) published on 26 November 2020.

Minimum risk-based capital requirements

20.1

Banks must meet the following requirements at all times:

1. Common Equity Tier 1 must be at least 4.5% of risk-weighted assets (RWA).
2. Tier 1 capital must be at least 6% of RWA.
3. Total capital must be at least 8.0% of RWA.¹

1 Footnote

- ¹ In addition, a Common Equity Tier 1 capital conservation buffer is set at 2.5% of RWA for all banks. Banks may also be subject to a countercyclical capital buffer or higher loss absorbency requirements for systemically important banks. These buffers are described in [RBC30](#) and [RBC40](#).

20.2

The components of capital referred to in [RBC20.1](#) are defined in [CAP10](#) and must be used net of regulatory adjustments (defined in [CAP30](#)) and subject to the transitional arrangements in [CAP90](#). RWA are defined in [RBC20.3](#) and [RBC20.4](#).

Risk-weighted assets

20.3

The Basel framework describes how to calculate RWA for credit risk, market risk and operational risk. The requirements for calculating RWA for credit risk and market risk allow banks to use different approaches, some of which banks may only use with supervisory approval. The nominated approaches of a bank comprise all the approaches that the bank is using to calculate regulatory capital requirements, other than those approaches used solely for the purpose of the output floor calculation outlined below. The nominated approaches of a bank may include those that it has supervisory approval to use and those for which supervisory approval is not required.

20.4

The RWA that banks must use to determine compliance with the requirements set out in [RBC20.1](#) (and the buffers in [RBC30](#) and [RBC40](#)) is the higher of:

1. the sum of the following three elements, calculated using the bank's nominated approaches:
 1. RWA for credit risk (as calculated in [RBC20.6](#) to [RBC20.8](#));
 2. RWA for market risk (as calculated in [RBC20.9](#)); and
 3. RWA for operational risk (as calculated in [RBC20.10](#)); and
2. 72.5% of the sum of the elements listed in point (1) above, calculated using only the standardised approaches listed in [RBC20.11](#). This element of this requirement is referred to as the output floor, and the RWA amount that is multiplied by 72.5% is referred to as the base of the output floor. This requirement is subject to transitional arrangements set out in [RBC90](#).

Banking book and trading book boundary

20.5

Before a bank can calculate RWA for credit risk and RWA for market risk, it must follow the requirements of [RBC25](#) to identify the instruments that are in the trading book. The banking book comprises all instruments that are not in the trading book and all other assets of the bank (hereafter “banking book exposures”).

RWA for credit risk

20.6

RWA for credit risk (including counterparty credit risk) is calculated as the sum of the following:

1. Credit RWA for banking book exposures, except the RWA listed in (2) to (6) below, calculated using:
 1. The standardised approach, set out in [CRE20](#) to [CRE22](#); or
 2. The internal ratings-based (IRB) approach, set out in [CRE30](#) to [CRE36](#).
2. RWA for counterparty credit risk arising from banking book exposures and from trading book instruments (as specified in [CRE55](#)), except the exposures listed in (3) to (6) below, using the methods outlined in [CRE51](#).
3. Credit RWA for equity investments in funds that are held in the banking book calculated using one or more of the approaches set out in [CRE60](#):
 1. The look-through approach.
 2. The mandate-based approach.
 3. The fall-back approach.
4. RWA for securitisation exposures held in the banking book, calculated using one or more of the approaches set out in [CRE40](#) to [CRE45](#):
 1. Securitisation Standardised Approach (SEC-SA).
 2. Securitisation External Ratings-Based Approach (SEC-ERBA).
 3. Internal Assessment Approach (IAA).
 4. Securitisation Internal Ratings-Based Approach (SEC-IRBA).
 5. A risk weight of 1250% in cases where the bank cannot use (a) to (d) above.
5. RWA for exposures to central counterparties in the banking book and trading book, calculated using the approach set out in [CRE54](#).
6. RWA for the risk posed by unsettled transactions and failed trades, where these transactions are in the banking book or trading book and are within scope of the rules set out in [CRE70](#).

20.7

The approaches listed in [RBC20.6](#) specify how banks must measure the size of their exposures (ie the exposure at default) and determine their RWA. Certain types of transactions in the banking book and trading book (such a derivatives and securities financing transactions) give rise to counterparty credit risk, for which the measurement of the size of the exposure can be complex. Therefore, the approaches listed in [RBC20.6](#) include, or cross refer to, the following methods available to determine the size of counterparty credit risk exposures (see [CRE51](#) for an overview of the counterparty credit risk requirements including the types of transactions to

which the methods below can be applied):

1. The standardised approach for measuring counterparty credit risk exposures (SA-CCR), set out in [CRE52](#).
2. The comprehensive approach, set out in [CRE22.40](#) to [CRE22.65](#).
3. The value at risk (VaR) models approach, set out in [CRE32.39](#) to [CRE32.41](#).
4. The internal models method (IMM), set out in [CRE53](#).

20.8

For banks that have supervisory approval to use IMM to calculate counterparty credit risk exposures, RWA for credit risk must be calculated as the higher of:

1. the sum of elements (1) to (6) in [RBC20.6](#) calculated using IMM with current parameter calibrations; and
2. the sum of the elements in [RBC20.6](#) using IMM with stressed parameter calibrations.

RWA for market risk

20.9

RWA for market risk is calculated as the sum of the following:

1. RWA for market risk for instruments in the trading book and for foreign exchange risk and commodities risk for exposures in the banking book, calculated using one or more of the following approaches:
 1. The standardised approach for market risk, set out in [MAR20](#) to [MAR23](#);
 2. The internal models approach (IMA) for market risk, set out in [MAR30](#) to [MAR33](#); or
 3. The simplified standardised approach for market risk, set out in [MAR40](#).
2. RWA for credit valuation adjustment (CVA) risk in the banking and trading book, calculated using one of the following methods set out in [MAR50](#):
 1. The basic approach to CVA risk (BA-CVA).
 2. The standardised approach to CVA risk (SA-CVA).
 3. 100% of the bank's RWA for counterparty credit risk, for banks that have exposures below a materiality threshold (see [MAR50.9](#)).

RWA for operational risk

20.10

RWA for operational risk is calculated using the standardised approach for operational risk, set out in [OPE25](#).

Calculation of the output floor

20.11

To reduce excessive variability of RWA and to enhance the comparability of risk-based capital ratios, banks are subject to a floor requirement that is applied to RWA. The output floor ensures

that banks' capital requirements do not fall below a certain percentage of capital requirements derived under standardised approaches. The standardised approaches to be used to calculate the base of the output floor referenced in [RBC20.4](#)(2) are as follows:

1. The standardised approach for credit risk.
2. The bank's nominated approach for equity investments in funds.
3. For securitisation exposures in the banking book and when determining the default risk charge component for securitisation exposures in the trading book:
 1. if a bank does not use SEC-IRBA or SEC-IAA, its nominated approach; or
 2. if a bank does use SEC-IRBA or SEC-IAA, then the SEC-ERBA, SEC-SA or a risk-weight of 1250% as determined per the hierarchy of approaches.
4. For counterparty credit risk exposure measurement:
 1. if a bank does not use IMM or the VaR models approach, then its nominated approach; or
 2. if a bank does use IMM or the VaR models approach, then the SA-CCR or the comprehensive approach.
5. For market risk:
 1. If a bank uses the IMA for market risk, then the standardised approach for market risk; or
 2. If a bank does not use the IMA for market risk, then its nominated approach.
6. The bank's nominated approach for CVA risk.
7. The standardised approach for operational risk.

20.12

[RBC20.11](#) above means that the following approaches are not permitted to be used, directly or by cross reference,² in the calculation of the base of the output floor:

1. IRB approach to credit risk;
2. SEC-IRBA;
3. the IMA for market risk;
4. the VaR models approach to counterparty credit risk; and
5. the IMM for counterparty credit risk.

1 Footnote

[2](#)

As examples:

-

Although the requirements for calculating exposures to central counterparties ([CRE54](#)) cross refer to IMM as a possible method for calculating exposure values, IMM may not be used when these rules are applied for calculating the base of the output floor.

-

For the look-through and mandate-based approaches for equity investments in funds, banks must use the standardised approach for credit risk when calculating the RWA of the underlying assets of the funds for the base of the output floor.

-

Although there is a cross reference in the standardised approach for market risk to the securitisation chapters of the credit risk standard ([CRE40](#) to [CRE45](#)), SEC-IRBA may not be used when the standardised approach for market risk is calculated for the base of the output floor.

20.13

The table below provides a simple example of how the capital floor must be calculated.

Illustration of output floor calculation			Table 1
	Pre-floor RWAs	Standardised RWAs	72.5% of standardised RWAs
Credit risk	62	124	-
- of which Asset Class A	45	80	-
- of which Asset Class B	5	32	-
- of which Asset Class C (not modelled)	12	12	-
Market risk	2	4	-
Operational risk (not modelled)	12	12	-
Total RWA	76	140	101.5

As the floored RWAs (101.5) are higher than the pre-floor RWA (76) in this example, the bank would use the former to determine compliance with the requirements set out in [RBC20.1](#) (and the buffers in [RBC30](#) and [RBC40](#)).

Minimum standards and use of internal models

20.14

While the Basel framework permits the use of internally modelled approaches for certain risk categories, subject to supervisory approval, a jurisdiction which does not implement some or all of the internally modelled approaches but instead only implements the basic or standardised approaches is compliant with the Basel framework.

RBC25

Boundary between the banking book and the trading book

This chapter sets out the instruments to be included in the trading book (which are subject to market risk capital requirements) and those to be included in the banking book (which are subject to credit risk capital requirements).

Version effective as of 01 January 2023

Updated to take account of the January 2019 market risk publication and the revised implementation date announced on 27 March 2020.

Scope of the trading book

25.1

A trading book consists of all instruments that meet the specifications for trading book instruments set out in [RBC25.2](#) through [RBC25.13](#). All other instruments must be included in the banking book.

25.2

Instruments comprise financial instruments, foreign exchange (FX), and commodities. A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary financial instruments (or cash instruments) and derivative financial instruments. A financial asset is any asset that is cash, the right to receive cash or another financial asset or a commodity, or an equity instrument. A financial liability is the contractual obligation to deliver cash or another financial asset or a commodity. Commodities also include non-tangible (ie non-physical) goods such as electric power.

1 FAQ

FAQ1 Does the credit spread risk (CSR) capital requirement under the market risk framework apply to money market instruments (eg bank bills with a tenor of less than one year and interbank placements)?
Yes. The CSR capital requirement applies to money market instruments to the extent such instruments are covered instruments (ie they meet the definition of instruments to be included in the trading book as specified in [RBC25.2](#) through [RBC25.13](#).

25.3

Banks may only include a financial instrument, instruments on FX or commodity in the trading book when there is no legal impediment against selling or fully hedging it.

25.4

Banks must fair value daily any trading book instrument and recognise any valuation change in the profit and loss (P&L) account.

1 FAQ

FAQ1 May instruments designated under the fair value option be allocated to the trading book?
Instruments designated under the fair value option may be allocated to the trading book, but only if they comply with all the relevant requirements for trading book instruments set out in [RBC25](#).

Standards for assigning instruments to the regulatory books

25.5

Any instrument a bank holds for one or more of the following purposes must, when it is first recognised on its books, be designated as a trading book instrument, unless specifically otherwise provided for in [RBC25.3](#) or [RBC25.8](#):

1. short-term resale;
2. profiting from short-term price movements;
3. locking in arbitrage profits; or
4. hedging risks that arise from instruments meeting (1), (2) or (3) above.

1 FAQ

FAQ1 *Does evidence of periodic sale activity automatically imply that the condition regarding short-term resale in [RBC25.5\(1\)](#) has been met?*
No. Periodic sale activity on its own is insufficient to consider a position as held for short-term resale.

25.6

Any of the following instruments is seen as being held for at least one of the purposes listed in [RBC25.5](#) and must therefore be included in the trading book, unless specifically otherwise provided for in [RBC25.3](#) or [RBC25.8](#):

1. instruments in the correlation trading portfolio;
2. instruments that would give rise to a net short credit or equity position in the banking book;³ or
3. instruments resulting from underwriting commitments, where underwriting commitments refer only to securities underwriting, and relate only to securities that are expected to be actually purchased by the bank on the settlement date.

1 Footnote, 2 FAQs

3 *A bank will have a net short risk position for equity risk or credit risk in the banking book if the present value of the banking book increases when an equity price decreases or when a credit spread on an issuer or group of issuers of debt increases.*

FAQ1 *What are the operational calculation and frequency for determining instruments giving rise to net short equity or credit positions in the banking book?*
Banks should continuously manage and monitor their banking book positions to ensure that any instrument that individually has the potential to create a net short credit or equity position in the banking book is not actually creating a non-negligible net short position at any point in time.

FAQ2 *Per [RBC25.6\(2\)](#), must a credit default swap (CDS) that hedges loans in the banking book but which gives rise to a net short credit position be allocated to the trading book?*
As a general principle, instruments that give rise to a net short credit or equity position in the banking book must be assigned to the trading book unless a trading book treatment is explicitly excluded for the specific type of position. In this example, the net short position resulting from such instruments (ie the amount which cannot be offset against any long positions) must be treated as a trading book position and be subject to market risk capital requirements.

25.7

Any instrument which is not held for any of the purposes listed in [RBC25.5](#) at inception, nor seen as being held for these purposes according to [RBC25.6](#), must be assigned to the banking

book.

25.8

The following instruments must be assigned to the banking book:

1. unlisted equities;
2. instruments designated for securitisation warehousing;
3. real estate holdings, where in the context of assigning instrument to the trading book, real estate holdings relate only to direct holdings of real estate as well as derivatives on direct holdings;
4. retail and small or medium-sized enterprise (SME) credit;
5. equity investments in a fund, unless the bank meets at least one of the following conditions:
 1. the bank is able to look through the fund to its individual components and there is sufficient and frequent information, verified by an independent third party, provided to the bank regarding the fund's composition; or
 2. the bank obtains daily price quotes for the fund and it has access to the information contained in the fund's mandate or in the national regulations governing such investment funds;
6. hedge funds;
7. derivative instruments and funds that have the above instrument types as underlying assets; or
8. instruments held for the purpose of hedging a particular risk of a position in the types of instrument above.

1 FAQ

*FAQ1 Based on [RBC25.8\(4\)](#), are retail and SME lending commitments excluded from the trading book?
Yes. Retail and SME lending commitments are excluded from the trading book.*

25.9

There is a general presumption that any of the following instruments are being held for at least one of the purposes listed in [RBC25.5](#) and therefore are trading book instruments, unless specifically otherwise provided for in [RBC25.3](#) or [RBC25.8](#):

1. instruments held as accounting trading assets or liabilities;⁴
2. instruments resulting from market-making activities;
3. equity investments in a fund excluding those assigned to the banking book in accordance with [RBC25.8\(5\)](#);
4. listed equities;⁵
5. trading-related repo-style transaction;⁶ or
6. options including embedded derivatives⁷ from instruments that the institution issued out of its own banking book and that relate to credit or equity risk.

4 Footnotes, 4 FAQs

- [4](#) Under IFRS (IAS 39) and US GAAP, these instruments would be designated as held for trading. Under IFRS 9, these instruments would be held within a trading business model. These instruments would be fair valued through the P&L account.
- [5](#) Subject to supervisory review, certain listed equities may be excluded from the market risk framework. Examples of equities that may be excluded include, but are not limited to, equity positions arising from deferred compensation plans, convertible debt securities, loan products with interest paid in the form of “equity kickers”, equities taken as a debt previously contracted, bank-owned life insurance products, and legislated programmes. The set of listed equities that the bank wishes to exclude from the market risk framework should be made available to, and discussed with, the national supervisor and should be managed by a desk that is separate from desks for proprietary or short-term buy/sell instruments.
- [6](#) Repo-style transactions that are (i) entered for liquidity management and (ii) valued at accrual for accounting purposes are not part of the presumptive list of [RBC25.9](#).
- [7](#) An embedded derivative is a component of a hybrid contract that includes a non-derivative host such as liabilities issued out of the bank’s own banking book that contain embedded derivatives. The embedded derivative associated with the issued instrument (ie host) should be bifurcated and separately recognised on the bank’s balance sheet for accounting purposes.

- FAQ1 What is the definition of “trading-related repo-style transactions”?
Trading-related repo-style transactions comprise those entered into for the purposes of market-making, locking in arbitrage profits or creating short credit or equity positions.
- FAQ2 How should a bank treat the bifurcation of embedded derivatives per [RBC25.9\(6\)](#)?
Liabilities issued out of the bank’s own banking book that contain embedded derivatives and thereby meet the criteria of [RBC25.9\(6\)](#) should be bifurcated. This means that banks should split the liability into two components: (i) the embedded derivative, which is assigned to the trading book; and (ii) the residual liability, which is retained in the banking book. No internal risk transfers are necessary for this bifurcation.
Likewise, where such a liability is unwound, or where an embedded option is exercised, both the trading and banking book components are conceptually unwound simultaneously and instantly retired; no transfers between trading and banking book are necessary.
- FAQ3 To which book must an FX option be assigned if it hedges the FX risk of a banking book position?
An option that manages FX risk in the banking book is covered by the presumptive list of trading book instruments included in [RBC25.9\(6\)](#). Only with explicit supervisory approval may a bank include in its banking book an option that manages banking book FX risk.

FAQ4 Does the reference in [RBC25.9\(6\)](#) to options that relate to credit or equity risk include floors to an equity-linked bond?
Yes. A floor to an equity-linked bond is an embedded option with an equity as part of the underlying, and therefore the embedded option should be bifurcated and included in the trading book.

25.10

Banks are allowed to deviate from the presumptive list specified in [RBC25.9](#) according to the process set out below.⁸

1. If a bank believes that it needs to deviate from the presumptive list established in [RBC25.9](#) for an instrument, it must submit a request to its supervisor and receive explicit approval. In its request, the bank must provide evidence that the instrument is not held for any of the purposes in [RBC25.5](#).
2. In cases where this approval is not given by the supervisor, the instrument must be designated as a trading book instrument. Banks must document any deviations from the presumptive list in detail on an on-going basis.

1 Footnote

⁸ The presumptions for the designation of an instrument to the trading book or banking book set out in this text will be used where a designation of an instrument to the trading book or banking book is not otherwise specified in this text.

Supervisory powers

25.11

Notwithstanding the process established in [RBC25.10](#) for instruments on the presumptive list, the supervisor may require the bank to provide evidence that an instrument in the trading book is held for at least one of the purposes of [RBC25.5](#). If the supervisor is of the view that a bank has not provided enough evidence or if the supervisor believes the instrument customarily would belong in the banking book, it may require the bank to assign the instrument to the banking book, except if it is an instrument listed under [RBC25.6](#).

25.12

The supervisor may require the bank to provide evidence that an instrument in the banking book is not held for any of the purposes of [RBC25.5](#). If the supervisor is of the view that a bank has not provided enough evidence, or if the supervisor believes such instruments would customarily belong in the trading book, it may require the bank to assign the instrument to the trading book, except if it is an instrument listed under [RBC25.8](#).

Documentation of instrument designation

25.13

A bank must have clearly defined policies, procedures and documented practices for determining which instruments to include in or to exclude from the trading book for the purposes of calculating their regulatory capital, ensuring compliance with the criteria set forth

in this section, and taking into account the bank's risk management capabilities and practices. A bank's internal control functions must conduct an ongoing evaluation of instruments both in and out of the trading book to assess whether its instruments are being properly designated initially as trading or non-trading instruments in the context of the bank's trading activities. Compliance with the policies and procedures must be fully documented and subject to periodic (at least yearly) internal audit and the results must be available for supervisory review.

Restrictions on moving instruments between the regulatory books

25.14

Apart from moves required by [RBC25.5](#) through [RBC25.10](#), there is a strict limit on the ability of banks to move instruments between the trading book and the banking book by their own discretion after initial designation, which is subject to the process in [RBC25.15](#) and [RBC25.16](#). Switching instruments for regulatory arbitrage is strictly prohibited. In practice, switching should be rare and will be allowed by supervisors only in extraordinary circumstances. Examples are a major publicly announced event, such as a bank restructuring that results in the permanent closure of trading desks, requiring termination of the business activity applicable to the instrument or portfolio or a change in accounting standards that allows an item to be fair-valued through P&L. Market events, changes in the liquidity of a financial instrument, or a change of trading intent alone are not valid reasons for reassigning an instrument to a different book. When switching positions, banks must ensure that the standards described in [RBC25.5](#) to [RBC25.10](#) are always strictly observed.

1 FAQ

- FAQ1** Does the term "change in accounting standards" in [RBC25.14](#) mean a change in the accounting standards themselves or a reclassification within the current accounting standards?
In the context of [RBC25.14](#), "change in accounting standards" refers to the accounting standards themselves changing, rather than the accounting classification of an instrument changing.

25.15

Without exception, a capital benefit as a result of switching will not be allowed in any case or circumstance. This means that the bank must determine its total capital requirement (across the banking book and trading book) before and immediately after the switch. If this capital requirement is reduced as a result of this switch, the difference as measured at the time of the switch will be imposed on the bank as a disclosed Pillar 1 capital surcharge. This surcharge will be allowed to run off as the positions mature or expire, in a manner agreed with the supervisor. To maintain operational simplicity, it is not envisaged that this additional capital requirement would be recalculated on an ongoing basis, although the positions would continue to also be subject to the ongoing capital requirements of the book into which they have been switched.

1 FAQ

- FAQ1** If an instrument is reclassified for accounting purposes (eg reclassification to accounting trading assets or liabilities through P&L), an automatic prudential switch may be necessary given the requirements set out in [RBC25.5](#) and [RBC25.10\(1\)](#). In this situation, does [RBC25.15](#) (regarding an additional Pillar 1 capital requirement) apply?
The disallowance of capital benefits as a result of switching positions from one book to another applies without exception and in any case or circumstance. It is therefore independent of whether the switch has been made at the discretion of the bank or is beyond its control, eg in the case of the delisting of an equity.

25.16

Any reassignment between books must be approved by senior management and the supervisor as follows. Any reallocation of securities between the trading book and banking book, including outright sales at arm's length, should be considered a reassignment of securities and is governed by requirements of this paragraph.

1. Any reassignment must be approved by senior management thoroughly documented; determined by internal review to be in compliance with the bank's policies; subject to prior approval by the supervisor based on supporting documentation provided by the bank; and publicly disclosed.
2. Unless required by changes in the characteristics of a position, any such reassignment is irrevocable.
3. If an instrument is reclassified to be an accounting trading asset or liability there is a presumption that this instrument is in the trading book, as described in [RBC25.9](#). Accordingly, in this case an automatic switch without approval of the supervisor is acceptable.

2 FAQs

FAQ1 *Does the treatment specified for internal risk transfers apply only to risk transfers done via internal derivatives trades, or does it apply to transfer of securities internally at market value as well?*
The treatment specified for internal risk transfers applies only to risk transfers done via internal derivatives trades. The reallocation of securities between trading and banking book should be considered a re-assignment of securities and is governed by [RBC25.16](#).

FAQ2 *Per [RBC25.16](#), if an instrument is re-classified as an accounting trading asset or liability, the switch from the banking book to the trading book can be automatic without supervisory approval. However, the movement of an instrument from the trading book to the banking book requires supervisory approval. Is this interpretation correct?*
Yes. Moving instruments between the trading book and the banking book should be rare. Although some national accounting regimes provide flexibility to change the accounting classification for an instrument, reallocating positions to the banking book due to changes in accounting classification without supervisory approval is not permitted by this standard. In all cases, including a case where an instrument is reclassified as an accounting trading asset or liability and per [RBC25.16\(3\)](#) accordingly switched to a trading book instrument for capital requirement purposes without approval of the supervisor, the disallowance of capital requirement benefits specified in [RBC25.15](#) will apply.

25.17

A bank must adopt relevant policies that must be updated at least yearly. Updates should be based on an analysis of all extraordinary events identified during the previous year. Updated policies with changes highlighted must be sent to the appropriate supervisor. Policies must include the following:

1. The reassignment restriction requirements in [RBC25.14](#) through [RBC25.16](#), especially the restriction that re-designation between the trading book and banking book may only be allowed in extraordinary circumstances, and a description of the circumstances or criteria where such a switch may be considered.
2. The process for obtaining senior management and supervisory approval for such a

transfer.

3. How a bank identifies an extraordinary event.
4. A requirement that re-assignments into or out of the trading book be publicly disclosed at the earliest reporting date.

Treatment of internal risk transfers

25.18

An internal risk transfer is an internal written record of a transfer of risk within the banking book, between the banking and the trading book or within the trading book (between different desks).

25.19

There will be no regulatory capital recognition for internal risk transfers from the trading book to the banking book. Thus, if a bank engages in an internal risk transfer from the trading book to the banking book (eg for economic reasons) this internal risk transfer would not be taken into account when the regulatory capital requirements are determined.

25.20

For internal risk transfers from the banking book to the trading book, [RBC25.21](#) to [RBC25.27](#) apply.

Internal risk transfer of credit and equity risk from banking book to trading book

25.21

When a bank hedges a banking book credit risk exposure or equity risk exposure using a hedging instrument purchased through its trading book (ie using an internal risk transfer),

1. The credit exposure in the banking book is deemed to be hedged for capital requirement purposes if and only if:
 1. the trading book enters into an external hedge with an eligible third-party protection provider that exactly matches the internal risk transfer; and
 2. the external hedge meets the requirements of [CRE22.74](#) to [CRE22.75](#) and [CRE22.77](#) to [CRE22.78](#) vis-à-vis the banking book exposure.⁹
2. The equity exposure in the banking book is deemed to be hedged for capital requirement purposes if and only if:
 1. the trading book enters into an external hedge from an eligible third-party protection provider that exactly matches the internal risk transfer; and
 2. the external hedge is recognised as a hedge of a banking book equity exposure.
3. External hedges for the purposes of [RBC25.21](#)(1) can be made up of multiple transactions with multiple counterparties as long as the aggregate external hedge exactly matches the internal risk transfer, and the internal risk transfer exactly matches the aggregate external hedge.

1 Footnote

- [9](#) *With respect to [CRE22.75](#), the cap of 60% on a credit derivative without a restructuring obligation only applies with regard to recognition of credit risk mitigation of the banking book instrument for regulatory capital purposes and not with regard to the amount of the internal risk transfer.*

25.22

Where the requirements in [RBC25.21](#) are fulfilled, the banking book exposure is deemed to be hedged by the banking book leg of the internal risk transfer for capital purposes in the banking book. Moreover both the trading book leg of the internal risk transfer and the external hedge must be included in the market risk capital requirements.

25.23

Where the requirements in [RBC25.21](#) are not fulfilled, the banking book exposure is not deemed to be hedged by the banking book leg of the internal risk transfer for capital purposes in the banking book. Moreover, the third-party external hedge must be fully included in the market risk capital requirements and the trading book leg of the internal risk transfer must be fully excluded from the market risk capital requirements.

25.24

A banking book short credit position or a banking book short equity position created by an internal risk transfer¹⁰ and not capitalised under banking book rules must be capitalised under the market risk rules together with the trading book exposure.

1 Footnote

- [10](#) *Banking book instruments that are over-hedged by their respective documented internal risk transfer create a short (risk) position in the banking book.*

Internal risk transfer of general interest rate risk from banking book to trading book

25.25

When a bank hedges a banking book interest rate risk exposure using an internal risk transfer with its trading book, the trading book leg of the internal risk transfer is treated as a trading book instrument under the market risk framework if and only if:

1. the internal risk transfer is documented with respect to the banking book interest rate risk being hedged and the sources of such risk;
2. the internal risk transfer is conducted with a dedicated internal risk transfer trading desk which has been specifically approved by the supervisor for this purpose; and
3. the internal risk transfer must be subject to trading book capital requirements under the market risk framework on a stand-alone basis for the dedicated internal risk transfer desk, separate from any other GIRR or other market risks generated by activities in the trading book.

1 FAQ

FAQ1 Do the trading desk attributes set out in [MAR12.4](#) apply to a general interest rate risk (GIRR) internal risk transfer (IRT) trading desk as defined in paragraph [RBC25.25\(2\)](#)?
Similar to the notional trading desk treatment set out in [MAR12.6](#) for foreign exchange or commodities positions held in the banking book, GIRR IRTs may be allocated to a trading desk that need not have traders or trading accounts assigned to it. For a GIRR IRT trading desk, only the quantitative trading desk requirements (ie profit and loss attribution test and backtesting) set out in [MAR32](#) apply. The qualitative criteria for trading desks as set out in [MAR12.4](#) do not apply to GIRR IRT trading desks.
A GIRR IRT desk must not have any trading book positions allocated to it, except GIRR IRTs between the trading book and the banking book as well as any external hedges that meet the conditions specified in [RBC25.27](#).

25.26

Where the requirements in [RBC25.25](#) are fulfilled, the banking book leg of the internal risk transfer must be included in the banking book's measure of interest rate risk exposures for regulatory capital purposes.

25.27

The supervisor-approved internal risk transfer desk may include instruments purchased from the market (ie external parties to the bank). Such transactions may be executed directly between the internal risk transfer desk and the market. Alternatively, the internal risk transfer desk may obtain the external hedge from the market via a separate non-internal risk transfer trading desk acting as an agent, if and only if the GIRR internal risk transfer entered into with the non-internal risk transfer trading desk exactly matches the external hedge from the market. In this latter case the respective legs of the GIRR internal risk transfer are included in the internal risk transfer desk and the non-internal risk transfer desk.

Internal risk transfers within the scope of application of the market risk capital requirement

25.28

Internal risk transfers between trading desks within the scope of application of the market risk capital requirements (including FX risk and commodities risk in the banking book) will generally receive regulatory capital recognition. Internal risk transfers between the internal risk transfer desk and other trading desks will only receive regulatory capital recognition if the constraints in [RBC25.25](#) to [RBC25.27](#) are fulfilled.

1 FAQ

FAQ1 Does the standard require a specific treatment for internal risk transfers (IRTs) between a trading desk that has an internal model approval and a trading desk without an internal model approval?
No. There are no constraints on IRTs between trading desks with regard to the scope of the application of the market risk capital requirements. The aggregation of the capital requirements calculated using the standard's standardised approach and its internal models approach does not recognise portfolio effects between trading desks that use either the standardised approach or the internal models approach in order to ensure a sufficiently conservative aggregation of risks.

25.29

The trading book leg of internal risk transfers must fulfil the same requirements under [RBC25](#) as instruments in the trading book transacted with external counterparties.

Eligible hedges for the CVA capital requirement

25.30

Eligible external hedges that are included in the credit valuation adjustment (CVA) capital requirement must be removed from the bank's market risk capital requirement calculation.

1 FAQ

FAQ1 Would FX and commodity risk, arising from CVA hedges that are eligible under the CVA standard, also be excluded from the bank's market risk capital requirements calculation?
Yes.

25.31

Banks may enter into internal risk transfers between the CVA portfolio and the trading book. Such an internal risk transfer consists of a CVA portfolio side and a non-CVA portfolio side. Where the CVA portfolio side of an internal risk transfer is recognised in the CVA risk capital requirement, the CVA portfolio side should be excluded from the market risk capital requirement, while the non-CVA portfolio side should be included in the market risk capital requirement.

25.32

In any case, such internal CVA risk transfers can only receive regulatory capital recognition if the internal risk transfer is documented with respect to the CVA risk being hedged and the sources of such risk.

25.33

Internal CVA risk transfers that are subject to curvature, default risk or residual risk add-on as set out in [MAR20](#) through [MAR23](#) may be recognised in the CVA portfolio capital requirement and market risk capital requirement only if the trading book additionally enters into an external hedge with an eligible third-party protection provider that exactly matches the internal risk transfer.

25.34

Independent from the treatment in the CVA risk capital requirement and the market risk capital requirement, internal risk transfers between the CVA portfolio and the trading book can be used to hedge the counterparty credit risk exposure of a derivative instrument in the trading or banking book as long as the requirements of [RBC25.21](#) are met.

RBC30

Buffers above the regulatory minimum

This chapter describes buffers that banks are expected to maintain above the minimum risk-based capital requirements, as well as the capital conservation requirements that apply to banks that do not maintain such buffers.

Version effective as of 15 December 2019

First version in the format of the consolidated framework.

Capital conservation buffer

30.1

This chapter outlines the operation of the capital conservation buffer, which is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. The requirement is based on simple capital conservation rules designed to avoid breaches of minimum capital requirements.

30.2

A capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 (CET1), is established above the regulatory minimum capital requirement.¹¹ Capital distribution constraints will be imposed on a bank when capital levels fall within this range. Banks will be able to conduct business as normal when their capital levels fall into the conservation range as they experience losses. The constraints imposed only relate to distributions, not the operation of the bank.

1 Footnote

- ¹¹ *Common Equity Tier 1 must first be used to meet the minimum capital and total loss-absorbing capacity (TLAC) requirements if necessary (including the 6% Tier 1, 8% Total capital requirements), before the remainder can contribute to the capital conservation buffer.*

30.3

The distribution constraints imposed on banks when their capital levels fall into the range increase as the banks' capital levels approach the minimum requirements. By design, the constraints imposed on banks with capital levels at the top of the range would be minimal. This reflects an expectation that banks' capital levels will from time to time fall into this range. The Basel Committee does not wish to impose constraints for entering the range that would be so restrictive as to result in the range being viewed as establishing a new minimum capital requirement.

30.4

The table below shows the minimum capital conservation ratios a bank must meet at various levels of CET1 capital ratios. The applicable conservation standards must be recalculated at each distribution date. For example, a bank with a CET1 capital ratio in the range of 5.125% to 5.75% is required to conserve 80% of its earnings in the subsequent payment period (ie pay out no more than 20% in terms of dividends, share buybacks and discretionary bonus payments). If the bank wants to make payments in excess of the constraints imposed by this regime, it would have the option of raising capital in the private sector equal to the amount above the constraint which it wishes to distribute. This would be discussed with the bank's supervisor as part of the capital planning process. The CET1 ratio includes amounts used to meet the 4.5% minimum CET1 requirement, but excludes any additional CET1 needed to meet the 6% Tier 1 and 8% Total Capital requirements, and also excludes any CET1 needed to meet the total loss-absorbing capacity (TLAC) requirement. For example, a bank with 8% CET1 and no Additional Tier 1 or Tier 2 capital, that has 10% of non-regulatory-capital TLAC instruments, would meet its minimum risk-based capital and risk-based TLAC requirements, but would have a zero conservation buffer and therefore be subject to the 100% constraint on capital distributions.

Individual bank minimum capital conservation standards	
CET1 Ratio	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
4.5% - 5.125%	100%
>5.125% - 5.75%	80%
>5.75% - 6.375%	60%
>6.375% - 7.0%	40%
> 7.0%	0%

1 FAQ

FAQ1 [RBC30.4](#) shows the minimum capital conservation ratios a bank must meet at various CET1 ratios. [RBC30.5\(4\)](#) states that the capital conservation buffer “must be capable of being drawn down”, but that “banks should not choose in normal times to operate in the buffer range simply to compete with other banks and win market share”. Are the following interpretations correct, despite implying some discontinuities in the levels of capital conservation? (a) A non-global systemically important bank (G-SIB) with a CET1 ratio between 5.125% and 5.75% may distribute up to 20% of its earnings, provided that in doing so its CET1 ratio does not fall below 5.125%, ie a bank may only fall into the final quartile of the capital conservation buffer as a result of making losses, rather than distributions. (b) A non-G-SIB with a 10.51% CET1 ratio and no Additional Tier 1 and Tier 2 capital (ie meeting minimum capital and buffer requirements solely with CET1) may make distributions equivalent to only 0.01% of risk-weighted assets (RWA), while a bank with a CET1 ratio of 10.45% (and no Additional Tier 1 and Tier 2 capital) may distribute up to 60% of its earnings, providing its CET1 ratio does not fall into the next quartile of the buffer.

The limits on distributions set out in the Basel III buffers framework are not intended to operate as set out in interpretations (a) and (b). As stated in [RBC30.3](#), capital buffers are not intended to be viewed as a minimum capital requirement. By design, the constraints imposed on banks with capital levels at the top of the range are minimal and the Committee expects that banks’ capital levels will, where necessary, be allowed to fall into the buffer range. The capital conservation ratios set out in [RBC30.4](#) need only take into account the current CET1 ratio of a bank (ie before the next distribution is made). Nonetheless, banks should discuss proposed distributions with their supervisors, who will consider these in the light of banks’ capital plans to rebuild buffers over an appropriate timeframe (as anticipated in [RBC30.5\(4\)](#)).

It should be noted that Basel standards constitute minimum requirements and jurisdictions may decide to apply a more conservative treatment.

30.5

Set out below are a number of other key aspects of the requirements:

1. Elements subject to the restriction on distributions: Items considered to be distributions include dividends and share buybacks, discretionary payments on other Tier 1 capital instruments and discretionary bonus payments to staff. Payments that do not result in a depletion of CET1, which may for example include certain scrip dividends, are not

considered distributions. The distribution restrictions do not apply to dividends which satisfy all three of the following conditions:

1. the dividends cannot legally be cancelled by the bank;
 2. the dividends have already been removed from CET1; and
 3. the dividends were declared in line with the applicable capital conservation standards (as set out in [RBC30.4](#)) at the time of declaration.
2. Definition of earnings: Earnings are defined as distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. Earnings are calculated after the tax which would have been reported had none of the distributable items been paid. As such, any tax impact of making such distributions are reversed out. Where a bank does not have positive earnings and has a CET1 ratio less than 7% (or higher if the capital conservation buffer has been expanded by other buffers), it would be restricted from making positive net distributions.
3. Solo or consolidated application: The framework should be applied at the consolidated level, ie restrictions would be imposed on distributions out of the consolidated group. National supervisors would have the option of applying the regime at the solo level to conserve resources in specific parts of the group.
4. Additional supervisory discretion: Although the buffer must be capable of being drawn down, banks should not choose in normal times to operate in the buffer range simply to compete with other banks and win market share. To ensure that this does not happen, supervisors have the additional discretion to impose time limits on banks operating within the buffer range on a case-by-case basis. In any case, supervisors should ensure that the capital plans of banks seek to rebuild buffers over an appropriate timeframe.

Countercyclical buffer

30.6

Losses incurred in the banking sector can be extremely large when a downturn is preceded by a period of excess credit growth. These losses can destabilise the banking sector and spark a vicious circle, whereby problems in the financial system can contribute to a downturn in the real economy that then feeds back on to the banking sector. These interactions highlight the particular importance of the banking sector building up additional capital defences in periods where the risks of system-wide stress are growing markedly.

30.7

The countercyclical buffer aims to ensure that banking sector capital requirements take account of the macro-financial environment in which banks operate. It will be deployed by national jurisdictions when excess aggregate credit growth is judged to be associated with a build-up of system-wide risk to ensure the banking system has a buffer of capital to protect it against future potential losses. This focus on excess aggregate credit growth means that jurisdictions are likely to only need to deploy the buffer on an infrequent basis. The buffer for internationally-active banks will be a weighted average of the buffers deployed across all the jurisdictions to which it has credit exposures. This means that they will likely find themselves subject to a small buffer on a more frequent basis, since credit cycles are not always highly correlated across jurisdictions.

30.8

The countercyclical buffer regime consists of the following elements:

1. National authorities will monitor credit growth and other indicators that may signal a build up of system-wide risk and make assessments of whether credit growth is excessive and is leading to the build up of system-wide risk. Based on this assessment they will put in place a countercyclical buffer requirement when circumstances warrant. This requirement will be released when system-wide risk crystallises or dissipates.
2. Internationally active banks will look at the geographic location of their private sector credit exposures and calculate their bank specific countercyclical capital buffer requirement as a weighted average of the requirements that are being applied in jurisdictions to which they have credit exposures.
3. The countercyclical buffer requirement to which a bank is subject will extend the size of the capital conservation buffer. Banks will be subject to restrictions on distributions if they do not meet the requirement.

National countercyclical buffer requirements

30.9

Each Basel Committee member jurisdiction will identify an authority with the responsibility to make decisions on the size of the countercyclical capital buffer. If the relevant national authority judges a period of excess credit growth to be leading to the build up of system-wide risk, they will consider, together with any other macroprudential tools at their disposal, putting in place a countercyclical buffer requirement. This will vary between zero and 2.5% of risk weighted assets, depending on their judgement as to the extent of the build up of system-wide risk.¹²

1 Footnote

¹² *National authorities can implement a range of additional macroprudential tools, including a buffer in excess of 2.5% for banks in their jurisdiction, if this is deemed appropriate in their national context. However, the international reciprocity provisions set out in this regime treat the maximum countercyclical buffer as 2.5%.*

30.10

The document entitled “ [Guidance for national authorities operating the countercyclical capital buffer](#) ”, sets out the principles that national authorities have agreed to follow in making buffer decisions. This document provides information that should help banks to understand and anticipate the buffer decisions made by national authorities in the jurisdictions to which they have credit exposures.

30.11

To give banks time to adjust to a buffer level, a jurisdiction will pre-announce its decision to raise the level of the countercyclical buffer by up to 12 months.¹³ Decisions by a jurisdiction to decrease the level of the countercyclical buffer will take effect immediately. The pre-announced buffer decisions and the actual buffers in place for all Committee member jurisdictions will be published on the Bank for International Settlements’ (BIS) [website](#).

1 Footnote, 4 FAQs

13 *Banks outside of this jurisdiction with credit exposures to counterparties in this jurisdiction will also be subject to the increased buffer level after the pre-announcement period in respect of these exposures. However, in cases where the pre-announcement period of a jurisdiction is shorter than 12 months, the home authority of such banks should seek to match the preannouncement period where practical, or as soon as possible (subject to a maximum preannouncement period of 12 months), before the new buffer level comes into effect.*

- FAQ1 What are authorities required to disclose when they set the countercyclical capital buffer rate or change the previously announced rate? How should this be disclosed to other authorities, banks, and the general public?*
Authorities need to communicate all buffer decisions. All decisions should also be reported promptly to the BIS. This will enable a list of prevailing buffers, pre-announced buffers, and policy announcements to be published on a dedicated page at the Basel Committee's website (www.bis.org/bcbs/ccyb/index.htm). Authorities are expected to provide regular updates on their assessment of the macro-financial situation and the prospects for potential buffer actions to prepare banks and their stakeholders for buffer decisions. Explaining how buffer decisions were made, including the information used and how it is synthesised, will help build understanding and the credibility of buffer decisions. Authorities are free to choose the communication vehicles they see as most appropriate for their jurisdiction. Authorities are not formally required to publish a given set of information regarding their countercyclical capital buffer regime and policy decisions. However, as noted in Guidance for national authorities operating the countercyclical capital buffer, since the credit-to-GDP guide should be considered as a useful starting reference point, there is a need to disclose the guide on a regular basis.
- FAQ2 How often are authorities expected to communicate buffer decisions? Do they need to communicate a decision to leave a previously announced countercyclical capital buffer rate unchanged?*
Authorities should communicate buffer decisions at least annually. This includes the case where there is no change in the prevailing buffer rate. More frequent communications should be made, however, to explain buffer actions when they are taken.
- FAQ3 How much time do banks have to build up the capital buffer add-on? Are there differences between decisions by home and host supervisors?*
The time period between the policy announcement date and the effective date for any increase in the countercyclical buffer is to give banks time to meet the additional capital requirements before they take effect. This time period should be up to 12 months, ie if deemed necessary by the host supervisor, the effective date may be accelerated to less than 12 months following the policy announcement date.
Under jurisdictional reciprocity, home authorities should seek to ensure their banks meet any accelerated timeline where practical, and in any case, subject to a maximum of 12 months following the host jurisdiction's policy announcement date. Finally, banks have discretion to meet the buffer sooner.

- FAQ4** *When there has been a decrease in the buffer rate, how quickly can banks use the portion of the buffer that has been released?*
Under Basel III, banks may, in accordance with applicable processes, use the released portion of the countercyclical capital buffer that has been built up as soon as the relevant authority announces a reduction in the capital buffer add-on rate (including the case where the buffer is released in response to a sharp downturn in the credit cycle). This is intended to reduce the risk that the supply of credit will be constrained by regulatory requirements, with potential consequences for the real economy. This timeline also applies to reciprocity; that is, banks in other jurisdictions may also use the buffer immediately once the host authority reduces the buffer rate for credit exposures to its jurisdiction. Notwithstanding this, home and subsidiary regulators could prohibit capital distributions if they considered it imprudent under the circumstances.

Bank specific countercyclical buffer

30.12

Banks will be subject to a countercyclical buffer that varies between zero and 2.5% to total risk weighted assets.¹⁴ The buffer that will apply to each bank will reflect the geographic composition of its portfolio of credit exposures. Banks must meet this buffer with CET1 or be subject to the restrictions on distributions set out in [RBC30.17](#).

1 Footnote, 2 FAQs

- [14](#) *As with the capital conservation buffer, the framework will be applied at the consolidated level. In addition, national supervisors may apply the regime at the solo level to conserve resources in specific parts of the group.*

- FAQ1** *Does the countercyclical capital buffer apply to total RWA (credit, market, and operational risk), or only to credit risk exposures?*
The bank-specific buffer add-on rate (ie the weighted average of countercyclical capital buffer rates in jurisdictions to which the bank has private sector credit exposures) applies to bank-wide total RWA (including credit, market, and operational risk) as used in for the calculation of all risk-based capital ratios, consistent with it being an extension of the capital conservation buffer.

- FAQ2** *At what level of consolidation should the countercyclical capital buffer be calculated?*
Consistent with [SCO10](#), the minimum requirements are applied at the consolidated level. In addition, national authorities may apply the regime at the solo level to conserve resources in specific parts of the group. Host authorities would have the right to demand that the countercyclical capital buffer be held at the individual legal entity level or consolidated level within their jurisdiction, in line with their implementation of the Basel capital requirements.

30.13

Internationally active banks will look at the geographic location of their private sector credit exposures (including non-bank financial sector exposures) and calculate their countercyclical capital buffer requirement as a weighted average of the buffers that are being applied in jurisdictions to which they have an exposure. Credit exposures in this case include all private sector credit exposures that attract a credit risk capital charge or the risk weighted equivalent trading book capital charges for specific risk, the incremental risk charge and securitisation.

8 FAQs

- FAQ1** *What are “private sector credit exposures”?*
“Private sector credit exposures” refers to exposures to private sector counterparties which attract a credit risk capital charge in the banking book, and the risk-weighted equivalent trading book capital charges for specific risk, the incremental risk charge, and securitisation. Interbank exposures and exposures to the public sector are excluded, but non-bank financial sector exposures are included.
- FAQ2** *What does “geographic location” mean? How should the geographic location of exposures on the banking book and the trading book be identified?*
The geographic location of a bank’s private sector credit exposures is determined by the location of the counterparties that make up the capital charge, irrespective of the bank’s own physical location or its country of incorporation. The location is identified according to the concept of ultimate risk. The geographic location identifies the jurisdiction whose announced countercyclical capital buffer add-on rate is to be applied by the bank to the corresponding credit exposure, appropriately weighted.
- FAQ3** *For which jurisdictions is reciprocity mandatory?*
Reciprocity is mandatory for all Basel Committee member jurisdictions. A full list of jurisdictions can be found at www.bis.org/bcbs/membership.htm. The Basel Committee will continue to review the potential for mandatory reciprocity of other non-member jurisdictions’ frameworks and, in the interim, strongly encourages voluntary reciprocity.
- FAQ4** *What is the maximum level of the buffer rate for which reciprocity is mandatory?*
Reciprocity is mandatory for Basel Committee member jurisdictions up to 2.5% under the Basel framework, irrespective of whether host authorities require a higher add-on.
- FAQ5** *When should the host authorities’ rates be reciprocated, and can there be deviations (higher or lower)?*
Home authorities must reciprocate buffer add-on rates imposed by any other member jurisdiction, in accordance with the scope of mandatory reciprocity and applicable processes. In particular, home authorities should not implement a lower buffer add-on in respect of their bank’s credit exposures to the host jurisdiction, up to a maximum of the buffer rate of 2.5%. For levels in excess of the relevant maximum buffer add-on rate, home authorities may, but are not required to, reciprocate host authorities’ buffer requirements. In general, home authorities will always be able to require that the banks they supervise maintain higher buffers if they judge the host authorities’ buffer to be insufficient.
- FAQ6** *How do banks learn about different countercyclical capital buffer requirements in different countries?*
When member jurisdictions make changes to the countercyclical capital buffer add-on rate, authorities are expected to promptly notify the BIS, so that authorities can require their banks to comply with the new rate. A list of prevailing and pre-announced buffer add-on rates is to be published on the Basel Committee’s website (www.bis.org/bcbs/ccyb/index.htm).

FAQ7 *What are the reciprocity requirements for sectoral countercyclical capital buffers or for countercyclical capital buffers introduced by non-Basel Committee members? National authorities can implement a range of additional macroprudential tools, including a sectoral countercyclical capital buffer, if this is deemed appropriate in their national context. The Basel III mandatory reciprocity provisions only apply to the countercyclical capital buffer, as defined in the Basel III framework, and not to sectoral requirements or other macroprudential tools, or to countercyclical capital buffer requirements introduced by jurisdictions outside the scope of mandatory reciprocity. However, the Basel III standards do not preclude an authority from voluntarily reciprocating beyond the mandatory reciprocity provisions for the countercyclical capital buffer or from reciprocating other policy tools.*

FAQ8 *How is the final bank-specific buffer add-on calculated? The final bank-specific buffer add-on amount is calculated as the weighted average of the countercyclical capital buffer add-on rates applicable in the jurisdiction(s) in which a bank has private sector credit exposures (including the bank's home jurisdiction) multiplied by total risk-weighted assets. The weight for the buffer add-on rate applicable in a given jurisdiction is the credit risk charge that relates to private sector credit exposures allocated to that jurisdiction, divided by the bank's total credit risk charge that relates to private sector credit exposures across all jurisdictions. Where the private sector credit exposures (as defined in [RBC30.13](#)(FAQ1)) to a jurisdiction, including the home jurisdiction, are zero, the weight to be allocated to the particular jurisdiction would be zero.*

30.14

The weighting applied to the buffer in place in each jurisdiction will be the bank's total credit risk charge that relates to private sector credit exposures in that jurisdiction,¹⁵ divided by the bank's total credit risk charge that relates to private sector credit exposures across all jurisdictions.

1 Footnote, 1 FAQ

[15](#) *When considering the jurisdiction to which a private sector credit exposure relates, banks should use, where possible, an ultimate risk basis; ie it should use the country where the guarantor of the exposure resides, not where the exposure has been booked.*

FAQ1

What is the difference between (the jurisdiction of) “ultimate risk” and (the jurisdiction of) “immediate counterparty” exposures?
 The concepts of “ultimate risk” and “immediate risk” are those used by the [BIS' International Banking Statistics](#). The jurisdiction of “immediate counterparty” refers to the jurisdiction of residence of immediate counterparties, while the jurisdiction of “ultimate risk” is where the final risk lies. For the purpose of the countercyclical capital buffer, banks should use, where possible, exposures on an “ultimate risk” basis.
 Table A.1 illustrates the potential differences in determining jurisdictions of ultimate risk versus immediate counterparty for various types of credit exposure. For example, a bank could face the situation where the exposures to a borrower is in one jurisdiction (country A), and the risk mitigant (eg guarantee) is in another jurisdiction (country B). In this case, the “immediate counterparty” is in country A, but the “ultimate risk” is in country B.
 Identifying geographic location
 “Ultimate risk” versus “immediate counterparty”
 Table A.1

Ultimate risk

Immediate counterparty

Borrower located in jurisdiction A:

No guarantee

A

A

Guarantee located in jurisdiction A

A

A

Guaranteed with counterparty located in jurisdiction A

A

A

Borrower located in country A:

Guarantee located in jurisdiction B

B

A

Guaranteed with counterparty located in jurisdiction B

B

A

Is a branch of parent located in country B

B

A

Repo transaction with counterparty in jurisdiction A (independent of geographical location of risk of collateral)

A

A

Securitisation exposures issued in jurisdiction A:

Debtor of the underlying exposure is located in jurisdiction A

A

A

Debtor of the underlying exposure is located in jurisdiction B

B1

A

Project finance; borrower in jurisdiction A with project located in jurisdiction B

B

A

Collective investment undertakings located in jurisdiction A

Depends on whether the bank has a debt or equity claim on the investment vehicle²

A

Trading book exposures to jurisdiction A:

Standardised Approach

A

A

Advanced Approach

A

A

¹ Based on a “see-through” approach, whereby the jurisdiction of ultimate risk is defined as the residence of the debtor of the underlying credit, security or derivatives contract. If this cannot be implemented, the “immediate counterparty” exposure should be used.

² The bank has a debt claim on the investment vehicle, the ultimate risk exposure should be allocated to the jurisdiction where the vehicle (or if applicable, its parent/guarantor) resides. If the bank has an equity claim, the ultimate risk exposure should be allocated proportionately to the jurisdictions where the ultimate risk exposures of the vehicle reside.

30.15

For the value-at-risk (VaR) charge for specific risk, the incremental risk charge and the comprehensive risk measurement charge, banks should work with their supervisors to develop an approach that would translate these charges into individual instrument risk weights that would then be allocated to the geographic location of the specific counterparties that make up the charge. However, it may not always be possible to break down the charges in this way due to the charges being calculated on a portfolio by portfolio basis. In such cases, the charge for the relevant portfolio should be allocated to the geographic regions of the constituents of the portfolio by calculating the proportion of the portfolio’s total exposure at default (EAD) that is due to the EAD resulting from counterparties in each geographic region.

2 FAQs

- FAQ1** What does “geographic location” mean? How should the geographic location of exposures on the banking book and the trading book be identified?
The geographic location of a bank’s private sector credit exposures is determined by the location of the counterparties that make up the capital charge, irrespective of the bank’s own physical location or its country of incorporation. The location is identified according to the concept of ultimate risk. The geographic location identifies the jurisdiction whose announced countercyclical capital buffer add-on rate is to be applied by the bank to the corresponding credit exposure, appropriately weighted.
- FAQ2** What are the relevant exposures on the trading book for the computation of geographical weights in the buffer add-on?
As noted in [RBC30.13](#) and [RBC30.15](#), private sector credit exposures subject to the market risk capital framework are the risk weighted equivalent trading book capital charges for specific risk, the incremental risk charge, and securitisation. For the VaR for specific risk, the incremental risk charge, and the comprehensive risk measures, banks should work with their supervisors to develop an approach that would translate these charges into individual instrument risk weights that would then be allocated to the geographic location of specific counterparties. However, it may not always be possible to break down the charges in this way due to the charges being calculated on a portfolio by portfolio basis. In such cases, one method is that the charge for the relevant portfolio should be allocated to the geographic regions of the constituents of the portfolio by calculating the proportion of the portfolio’s total EAD that is due to the EAD resulting from counterparties in each geographic region.
The Basel Committee will monitor implementation practices and provide more prescriptive guidance should circumstances warrant it.

Extension of the capital conservation buffer

30.16

The countercyclical buffer requirement to which a bank is subject is implemented through an extension of the capital conservation buffer described in [RBC30.1](#) to [RBC30.5](#).

30.17

The table below shows the minimum capital conservation ratios a bank must meet at various levels of the CET1 capital ratio.¹⁶ When the countercyclical capital buffer is zero in all of the regions to which a bank has private sector credit exposures, the capital levels and restrictions set out in the table are the same as those set out in [RBC30.1](#) to [RBC30.5](#).

Individual bank minimum capital conservation standards	
Common Equity Tier 1 (including other fully loss absorbing capital)	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
Within first quartile of buffer	100%
Within second quartile of buffer	80%

Within Third quartile of buffer	60%
Within Fourth quartile of buffer	40%
Above top of buffer	0%

1 Footnote

[16](#) Consistent with the conservation buffer, the CET1 ratio in this context includes amounts used to meet the 4.5% minimum CET1 requirement, but excludes any additional CET1 needed to meet the 6% Tier 1 and 8% Total Capital requirements and the minimum TLAC requirement.

30.18

For illustrative purposes, the following table sets out the conservation ratios a bank must meet at various levels of CET1 capital if the bank is subject to a 2.5% countercyclical buffer requirement.

Individual bank minimum capital conservation standards, when a bank is subject to a 2.5% countercyclical requirement	
Common Equity Tier 1 Ratio (including other fully loss absorbing capital)	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
4.5% - 5.75%	100%
>5.75% - 7.0%	80%
>7.0% - 8.25%	60%
>8.25% - 9.5%	40%
> 9.5%	0%

Frequency of calculation of the countercyclical buffer requirements

30.19

Banks must ensure that their countercyclical buffer requirements are calculated and publically disclosed with at least the same frequency as their minimum capital requirements. The buffer should be based on the latest relevant jurisdictional countercyclical buffers that are available at the date that they calculate their minimum capital requirement.

Capital conservation best practice

30.20

Outside of periods of stress, banks should hold buffers of capital above the regulatory minimum. Implementation of the buffers in this chapter will help increase sector resilience going into a downturn, and provide the mechanism for rebuilding capital during the early stages of economic recovery. Retaining a greater proportion of earnings during a downturn will help ensure that capital remains available to support the ongoing business operations of banks through the period of stress.

30.21

When buffers have been drawn down, one way banks should look to rebuild them is through reducing discretionary distributions of earnings. This could include reducing dividend payments, share-backs and staff bonus payments. Banks may also choose to raise new capital from the private sector as an alternative to conserving internally generated capital. The balance between these options should be discussed with supervisors as part of the capital planning process.

30.22

Greater efforts should be made to rebuild buffers the more they have been depleted. Therefore, in the absence of raising capital in the private sector, the share of earnings retained by banks for the purpose of rebuilding their capital buffers should increase the nearer their actual capital levels are to the minimum capital requirement.

30.23

It is not acceptable for banks which have depleted their capital buffers to use future predictions of recovery as justification for maintaining generous distributions to shareholders, other capital providers and employees. These stakeholders, rather than depositors, must bear the risk that recovery will not be forthcoming. It is also not acceptable for banks which have depleted their capital buffers to try and use the distribution of capital as a way to signal their financial strength. Not only is this irresponsible from the perspective of an individual bank, putting shareholders' interests above depositors, it may also encourage other banks to follow suit. As a consequence, banks in aggregate can end up increasing distributions at the exact point in time when they should be conserving earnings.

RBC40

Systemically important bank buffers

This chapter describes the higher loss absorbency requirements applying to global and domestic systemically important banks.

Version effective as of 15 December 2019

First version in the format of the consolidated framework.

Higher loss absorbency requirement for G-SIBs

40.1

The aim of the higher loss absorbency requirement, as set out in the report endorsed by the Group of Twenty at its Seoul Summit in November 2010, is to ensure that global systemically important financial institutions have a higher share of their balance sheets funded by instruments which increase the resilience of the institution as a going-concern. Taking into account this going-concern objective, global systemically important banks (G-SIBs) must meet their higher loss absorbency requirement with Common Equity Tier 1 capital only.

40.2

National supervisors have implemented the higher loss absorbency requirement through an extension of the capital conservation buffer, maintaining the division of the buffer into four bands of equal size (as described in [RBC30.17](#)).

40.3

If a G-SIB breaches the higher loss absorbency requirement, it is required to agree a capital remediation plan to return to compliance over a time frame to be established by the supervisor. Until it has completed that plan and returned to compliance, it is subject to the limitations on dividend payout defined by the conservation buffer bands, and to other arrangements as required by the supervisor.

40.4

As described in [SCO40.19](#) to [SCO40.22](#), G-SIBs are allocated into buckets based on their scores of systemic importance, with varying levels of higher loss absorbency requirements applied to the different buckets. The cutoff score for G-SIB designation is 130 bps and the buckets corresponding to the different higher loss-absorbency requirements each have a range of 100 bps. The magnitude of the higher loss-absorbency requirement for the highest populated bucket is 2.5% of risk-weighted assets, with an initially empty top bucket of 3.5% of risk-weighted assets. The magnitude of the higher loss absorbency requirement for the lowest bucket is 1.0% of risk-weighted assets. Based on the bucketing approach set out in [SCO40.19](#) to [SCO40.22](#), the magnitude of the higher loss absorbency requirement for each bucket is as follows.

Bucketing approach		Table 1
Bucket	Score range	Higher loss absorbency requirement (common equity as a percentage of risk-weighted assets)
5	530-629	3.5%
4	430-529	2.5%
3	330-429	2.0%
2	230-329	1.5%
1	130-229	1.0%

40.5

As noted in [SCO40.22](#), although the bucket thresholds is set initially such that bucket 5 is empty, if this bucket should become populated in the future, a new bucket will be added to maintain incentives for banks to avoid becoming more systemically important. Each new bucket will be equal in size (in terms of scores) to each of the initially populated buckets and the minimum higher loss absorbency requirement for the new buckets will increase in increments of 1% of risk-weighted assets (eg if bucket 5 should become populated, bucket 6 would be created with a minimum higher loss absorbency requirement of 4.5%).

40.6

If a G-SIB progresses to a bucket requiring a higher loss absorbency requirement, it will be required to meet the additional requirement within a time frame of 12 months. After this grace period, if the bank does not meet the higher loss absorbency requirement, the capital retention mechanism for the expanded capital conservation buffer will be applied. If, on the other hand, the G-SIB score falls, resulting in a lower higher loss absorbency requirement, the bank should be immediately released from its previous higher loss absorbency requirement. In these circumstances, national authorities may exert discretion and require a bank to delay the release of higher loss absorbency requirements.

Higher loss absorbency for domestic systemically important banks

40.7

As described in [SCO50](#), a domestic systemically important bank (D-SIB) framework is best understood as taking the complementary perspective to the G-SIB regime by focusing on the impact that the distress or failure of banks (including by international banks) will have on the domestic economy. The principles developed by the Committee for D-SIBs would allow for appropriate national discretion to accommodate structural characteristics of the domestic financial system, including the possibility for countries to go beyond the minimum D-SIB framework and impose additional requirements based on the specific features of the country and its domestic banking sector.

40.8

The principles set out below focus on the higher loss absorbency requirement for D-SIBs. The Committee would like to emphasise that other policy tools, particularly more intensive supervision, can also play an important role in dealing with D-SIBs.

1. National authorities should document the methodologies and considerations used to calibrate the level of higher loss absorbency that the framework would require for D-SIBs in their jurisdiction. The level of higher loss absorbency calibrated for D-SIBs should be informed by quantitative methodologies (where available) and country-specific factors without prejudice to the use of supervisory judgement.
2. The higher loss absorbency requirement imposed on a bank should be commensurate with the degree of systemic importance, as identified under [SCO50.14](#) to [SCO50.17](#).
3. National authorities should ensure that the application of the G-SIB and D-SIB frameworks is compatible within their jurisdictions. Home authorities should impose higher loss absorbency requirements that they calibrate at the parent and/or consolidated level, and host authorities should impose higher loss absorbency requirements that they calibrate at the sub-consolidated/subsidiary level. The home authority should test that the parent bank is adequately capitalised on a standalone

basis, including cases in which a D-SIB higher loss absorbency requirement is applied at the subsidiary level. Home authorities should impose the higher of either the D-SIB or G-SIB higher loss absorbency requirements in the case where the banking group has been identified as a D-SIB in the home jurisdiction as well as a G-SIB.

4. In cases where the subsidiary of a bank is considered to be a D-SIB by a host authority, home and host authorities should make arrangements to coordinate and cooperate on the appropriate higher loss absorbency requirement, within the constraints imposed by relevant laws in the host jurisdiction.
5. The higher loss absorbency requirement should be met fully by Common Equity Tier 1. In addition, national authorities should put in place any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB.

Principle 1: documenting methodologies for calibration

40.9

The purpose of a higher loss absorbency requirement for D-SIBs is to reduce further the probability of failure compared to non-systemic institutions, reflecting the greater impact a D-SIB failure is expected to have on the domestic financial system and economy.

40.10

It is important for the application of a D-SIB higher loss absorbency, at both the parent and subsidiary level, to be based on a transparent and well articulated assessment framework to ensure the implications of the requirements are well understood by both the home and the host authorities.

40.11

The level of higher loss absorbency for D-SIBs should be subject to policy judgement by national authorities. That said, there needs to be some form of analytical framework that would inform policy judgements. This was the case for the policy judgement made by the Committee on the level of the additional loss absorbency requirement for G-SIBs.

40.12

The policy judgement on the level of higher loss absorbency requirements should also be guided by country-specific factors which could include the degree of concentration in the banking sector or the size of the banking sector relative to gross domestic product (GDP). Specifically, countries that have a larger banking sector relative to GDP are more likely to suffer larger direct economic impacts of the failure of a D-SIB than those with smaller banking sectors. While size-to-GDP is easy to calculate, the concentration of the banking sector could also be considered (as a failure in a medium-sized highly concentrated banking sector would likely create more of an impact on the domestic economy than if it were to occur in a larger, more widely dispersed banking sector).¹⁷

1 Footnote

¹⁷ *Another factor that could be relevant is the funding position of the banking sector, whereby more foreign wholesale funding could increase the transition costs (deleveraging) facing both the financial sector and the domestic economy in the event of a crisis.*

40.13

The use of these factors in calibrating the higher loss absorbency requirement would provide justification for different intensities of policy responses across countries for banks that are otherwise similar across the four key bank-specific factors outlined in [SCO50.14](#) to [SCO50.17](#).

Principle 2: calibration commensurate with systemic importance

40.14

Although the D-SIB framework does not produce scores based on a prescribed methodology as in the case of the G-SIB framework, the higher loss absorbency requirements for D-SIBs should also be decided based on the degree of domestic systemic importance. This is to provide the appropriate incentives to banks which are subject to the higher loss absorbency requirements to reduce (or at least not increase) their systemic importance over time. In the case where there are multiple D-SIB buckets in a jurisdiction, this could imply differentiated levels of higher loss absorbency between D-SIB buckets.

Principle 3: consistency between application of G-SIB and D-SIB frameworks

40.15

National authorities, including host authorities, currently have the capacity to set and impose capital requirements they consider appropriate to banks within their jurisdictions. [SCO40.5](#) states that host authorities of G-SIB subsidiaries may apply an additional loss absorbency requirement at the individual legal entity or consolidated level within their jurisdiction. An imposition of a D-SIB higher loss absorbency by a host authority is no different (except for additional transparency) from their current capacity to impose a Pillar 1 or 2 capital charge. Therefore, the ability of the host authorities to implement a D-SIB higher loss absorbency on local subsidiaries does not raise any new home-host issues.

40.16

National authorities should ensure that banks with the same degree of systemic importance in their jurisdiction, regardless of whether they are domestic banks, subsidiaries of foreign banking groups, or subsidiaries of G-SIBs, are subject to the same higher loss absorbency requirements, ceteris paribus. Banks in a jurisdiction should be subject to a consistent, coherent and non-discriminatory treatment regardless of the ownership. The objective of the host authorities' power to impose higher loss absorbency on subsidiaries is to bolster capital to mitigate the potential heightened impact of the subsidiaries' failure on the domestic economy due to their systemic nature. This should be maintained in cases where a bank might not be (or might be less) systemic at home, but its subsidiary is (more) systemic in the host jurisdiction.

40.17

An action by the host authorities to impose a D-SIB higher loss absorbency requirement leads to increases in capital at the subsidiary level which can be viewed as a shift in capital from the parent bank to the subsidiary, unless it already holds an adequate capital buffer in the host jurisdiction or the additional capital raised by the subsidiary is from outside investors. This could, in the case of substantial or large subsidiaries, materially decrease the level of capital protecting the parent bank. Under such cases, it is important that the home authority continues to ensure there are sufficient financial resources at the parent level, for example through a solo capital requirement (see also [SCO10.4](#)).

40.18

Within a jurisdiction, applying the D-SIB framework to both G-SIBs and non-G-SIBs will help ensure a level playing field within the national context. For example, in a jurisdiction with two banks that are roughly identical in terms of their assessed systemic nature at the domestic level, but where one is a G-SIB and the other is not, national authorities would have the capacity to apply the same D-SIB higher loss absorbency requirement to both. In such cases, the home authorities could face a situation where the higher loss absorbency requirement on the consolidated group will be the higher of those prescribed by the G-SIB and D-SIB frameworks (ie the higher of either the D-SIB or G-SIB requirement).

40.19

Double-counting should be avoided. The higher loss absorbency requirements derived from the G-SIB and D-SIB frameworks should not be additive. This will ensure the overall consistency between the two frameworks and allows the D-SIB framework to take the complementary perspective to the G-SIB framework.

Principle 4: home and host cooperation

40.20

The Committee recognises that there could be some concern that host authorities tend not to have a group-wide perspective when applying higher loss absorbency requirements to subsidiaries of foreign banking groups in their jurisdiction. The home authorities, on the other hand, clearly need to know D-SIB higher loss absorbency requirements on significant subsidiaries since there could be implications for the allocation of financial resources within the banking group.

40.21

In these circumstances, it is important that arrangements to coordinate and cooperate on the appropriate higher loss absorbency requirement between home and host authorities are established and maintained, within the constraints imposed by relevant laws in the host jurisdiction, when formulating higher loss absorbency requirements. This is particularly important to make it possible for the home authority to test the capital position of a parent on a stand-alone basis as mentioned in [RBC40.16](#) and to prevent a situation where the home authorities are surprised by the action of the host authorities. Home and host authorities should coordinate and cooperate with each other on any plan to impose a higher loss absorbency requirement on a subsidiary bank, and the amount of the requirement, before taking any action. The host authority should provide a rationale for their decision, and an indication of the steps the bank would need to take to avoid/reduce such a requirement. The home and host authorities should also discuss:

1. the resolution regimes (including recovery and resolution plans) in both jurisdictions,
2. available resolution strategies and any specific resolution plan in place for the firm, and
3. the extent to which such arrangements should influence higher loss absorbency requirements.

Principle 5: higher loss absorbency requirement met with Common Equity Tier 1 and additional requirements and policy measures to address the risks posed by a D-SIB

40.22

Higher loss absorbency requirements for D-SIBs should be fully met with Common Equity Tier 1 to ensure a maximum degree of consistency with G-SIBs in terms of effective loss-absorbing capacity. This has the benefit of facilitating direct and transparent comparability of the application of requirements across jurisdictions, an element that is considered desirable given the fact that most of these banks will have cross-border operations being in direct competition with each other. In addition, national authorities should put in place any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB.

40.23

National authorities should implement the higher loss absorbency requirement through an extension of the capital conservation buffer, maintaining the division of the buffer into four bands of equal size (as described in [RBC30.17](#)). This is in line with the treatment of the additional loss absorbency requirement for G-SIBs. The higher loss absorbency requirement for D-SIBs is essentially a requirement that sits on top of the capital buffers and minimum capital requirement, with a pre-determined set of consequences for banks that do not meet this requirement.

RBC90

Transitional arrangements

This chapter describes transitional arrangements for the output floor.

Version effective as of 01 January 2023

Implementation date changed to 1 January 2023 and output floor phase-in arrangements updated as announced on 27 March 2020.

90.1

The output floor will be implemented as of 1 January 2023, based on the following calibration phase-in arrangement:

Phase-in arrangements for output floor		Table 1
Date	Calibration	
1 January 2023	50%	
1 January 2024	55%	
1 January 2025	60%	
1 January 2026	65%	
1 January 2027	70%	
1 January 2028	72.5%	

90.2

During the phase-in period, supervisors may exercise national discretion to cap the incremental increase in a bank's total risk-weighted assets (RWA) that results from the application of the floor. This transitional cap will be set at 25% of a bank's RWA before the application of the floor. In the example shown in [RBC20.13](#), the application of this national discretion by the supervisor would cap the bank's RWA to 95 (ie a 25% increase of its pre-floor RWA of 76).