

Workshop 2

Raising the (supervisory) bar: enhancing supervisory effectiveness

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Supervisory effectiveness and the Basel Core Principles

The revised 2024 Basel Core Principles (BCPs) place emphasis on how supervisors exercise judgment to achieve effective supervisory outcomes. While they deliberately avoid prescribing a single framework for “measuring” effectiveness acknowledging that it is inherently difficult to identify and agree on what constitutes effective supervision due to challenges in defining success, they set out the framework, conditions, potential approaches and supervisory behaviours across multiple principles. These include:

- **Effective supervisory framework (BCP 1 and 2):** the foundation of supervisory effectiveness is that a supervisory authority has clear statutory responsibilities and objectives, sufficient legal powers, operational independence, adequate resources, sound governance and accountability, and legal protection for supervisors. These institutional characteristics are prerequisites for sustained effectiveness.
- **Risk-based, forward-looking supervision (BCP 8):** supervisors should develop and maintain a forward-looking, proportionate assessment of banks’ risks, considering systemic importance; identify, assess, and address emerging and system-wide risks through timely, proportionate supervisory measures and sustained follow-up; and update assessments continuously. This shifts supervision from episodic compliance checks to continuous risk assessment and prioritisation.
- **Effective techniques and tools (BCP 9 and 10):** an appropriate mix of off-site monitoring and on-site inspections, thematic/horizontal reviews, independent verification of information and challenge of banks’ assumptions and practices is used by supervisors. Timely, accurate and comprehensive data collection, validation and analysis underpin supervisory judgment. Where analytics and models are used (including suptech), supervisors should maintain appropriate governance, validation and human-in-the-loop controls consistent with Principle 10 (Supervisory reporting) and banks’ risk data aggregation/reporting capabilities under Principle 15.
- **Early intervention and willingness to act (BCP 11):** effectiveness hinges on identifying problems early, requiring timely remediation, escalating measures proportionately and, where needed, using formal enforcement powers. Possessing powers is insufficient unless supervisors are prepared to use them and to verify that corrective actions are implemented. Calibration should reflect legal frameworks and due process, and coordination with resolution authorities where escalation may intersect with recovery and resolution planning.
- **Supervisory judgment and challenge (cross-cutting across BCPs 8, 9 and 11):** the BCPs embed the expectation that supervisors exercise informed judgment, avoid mechanical reliance on ratios, assess governance and risk culture, and challenge management even when quantitative indicators appear satisfactory.

- **Governance and risk management (BCPs 14–15):** supervisors should determine that banks have robust governance and enterprise-wide risk management, including effective boards, clear accountability, sound risk culture and integrated control frameworks across all material risks.
- **Continuous supervision and outcomes (cross-cutting):** regular dialogue with banks, continuous reassessment of risk profiles and updated supervisory strategies are implied outcomes. The assessment methodology is qualitative and proportional; it cautions against checklist metrics and cross-jurisdictional rankings. Where indicators are used internally, they should be applied carefully to avoid perverse incentives and misattribution.

The BCPs describe comprehensively the attributes of effective supervision and leave jurisdictions flexibility in how they assess whether supervision is achieving those outcomes. This first gained salience with the Great Financial Crisis and was confirmed by the 2023 banking turmoil, as weaknesses often lay less in minimum regulatory standards but rather how supervision is applied in practice.

The 2023 banking turmoil: reinforcing the case for supervisory effectiveness

In March 2023, the global financial system experienced its most significant bout of banking stress since the Global Financial Crisis. Within an 11-day window, several banks failed, together accounting for more than USD 1 trillion in assets. While the proximate causes varied across institutions, common threads emerged: shortcomings in fundamental risk management, misaligned or unsustainable business models, weaknesses in governance and, critically, gaps in supervisory responsiveness and early intervention. Moreover, these lessons extend beyond the specific events to other potential sources of banking stress.

Following the 2023 turmoil, the Committee has prioritised enhancing supervisory effectiveness including the development of a suite of practical tools that supervisors can use, at their discretion, in their day-to-day work.

What are supervisory tools?

“Supervisory tools” serves as an umbrella term for a broader suite of resources designed to support supervisors in their practical, day-to-day activities. These tools aim to enhance supervisory practices and effectiveness by incorporating case studies and illustrative experiences from other supervisors, reflecting the Committee’s commitment to continuously improving supervisory approaches. The tools are based on the BCPs as well as the Committee’s standards and guidelines. While they are primarily relevant to the prudential supervision of large, internationally active banks, supervisors of smaller banks can also benefit from them. This is because the BCPs are universally applicable, accommodating diverse banking systems and a wide spectrum of banks.

The two main types of supervisory tools are:

- (1) **Supervisory Implementation Tools (SITs):** provide practical, observed supervisory practices in areas where detailed Basel standards/guidelines already exist, to support effective implementation. They are non-binding, not prescriptive, proportionate, and not intended to change or replace Basel standards.
- (2) **Supervisory Attributes Tools (SATs):** outline attributes and attention points that support interpretation and implementation of the BCPs in areas with significant supervisory judgment and where the Committee does not provide detailed standards or guidelines. They may help with the interpretation and implementation of the BCPs and are non-binding reference points to promote consistency and learning without constraining judgment.

The Committee has developed supervisory tools in key areas such as liquidity risk, interest rate in the banking book (IRRBB) and business model analysis.

It also introduced a tool on effective supervisory judgment which facilitates the sharing of insights on how supervisors apply judgment in day-to-day supervision and provides broader observations on organisational effectiveness within supervisory authorities. Other areas of focus for detailed information sharing include the powers and tools that supervisors have at their disposal, the role of supervisory risk appetite, and the allocation of supervisory resources based on the size and complexity of a bank.

In addition, in 2025, the Committee published a working paper on *Lessons on supervisory effectiveness – a literature review*¹ which offers valuable insights from academic and policy research on supervisory effectiveness.

Questions

- Q1. How do you set, communicate, and translate supervisory priorities into action, and adjust resources as risks evolve, including for frontier developments?
- Q2. How does your methodology ensure judgment-led, risk-based supervision (not box-ticking), and how do you define and apply your supervisory risk appetite/tolerance?
- Q3. How do you assess materiality of findings and decide when to move from cooperative measures to binding actions, and which tools have most effectively changed bank behaviour?
- Q4. How do you evaluate and improve supervisory effectiveness - what review mechanisms and indicators do you use?

¹ <https://www.bis.org/publications/lessons-supervisory-effectiveness-literature-review>