Basel Committee
on Banking Supervision

Basel III regulatory consistency assessment programme

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Contents

Executive summary

Full, timely and consistent implementation of Basel III is fundamental to raising the resilience of the global banking system, in maintaining market confidence in regulatory ratios and in providing a level playing field. The benefits of the recent round of regulatory reforms will not be realised without implementation.

To aid the implementation process, members of the Basel Committee have agreed on an assessment programme that will review and report on their implementation of Basel III[1].

The assessment programme will be conducted on three levels:

- Level 1: ensuring the **timely** adoption of Basel III;
- Level 2: ensuring **regulatory consistency** with Basel III; and
- Level 3: ensuring consistency of risk-weighted asset **outcomes**.

This document describes the Level 2 review programme, which utilises a peer review process to assess the compliance of individual jurisdiction's domestic regulations with the international minimum requirements defined by the Basel Committee. By identifying domestic regulations and provisions that are not consistent with the rules agreed by the Committee and by assessing and reporting on their impact on financial stability and on the international level playing field, this programme is intended to promote full and consistent implementation of Basel III. It will also facilitate an effective dialogue among members and to provide peer pressure if needed.

The conclusions following each member's assessment will be published by the Committee.

[1] The term 'Basel III' throughout this document refers to the components of the Basel framework outlined in Annex 1

Basel III regulatory consistency assessment programme

1. Assessment framework

Background and objectives

Full, timely and consistent implementation of Basel III is fundamental to raising the resilience of the global banking system, in maintaining market confidence in regulatory ratios, and in providing a level playing field.

Reflecting the importance of implementation, the Committee has agreed to establish a programme to assess its members' implementation of Basel III. The implementation assessment programme is comprised of three levels of review:

- Level 1: ensuring the **timely** adoption of Basel III;
- Level 2: ensuring **regulatory consistency** with Basel III; and
- Level 3: ensuring consistency of risk-weighted asset **outcomes**.

This document describes the Level 2 review process, which assesses the compliance of domestic regulations implementing Basel III with the international minimum requirements defined by the Basel Committee. By identifying domestic regulations and provisions that are not consistent with the rules agreed by the Committee and by assessing their impact on financial stability and on the international level playing field, this process will promote full and consistent implementation of Basel III. It will also facilitate an effective dialogue among members and provide peer pressure if needed. The conclusions following each jurisdiction's assessment will be published by the Committee.

This assessment programme supports the Financial Stability Board's monitoring of the implementation of the agreed G20/FSB financial reforms and is fully consistent with the "*Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms*" put in place by the FSB.[2]

The Basel Committee's implementation assessment programme and the Financial Sector Assessment Program (FSAP), which is conducted by the International Monetary Fund and the World Bank (and which assesses country compliance with the Basel Committee's Core Principles for Effective Banking Supervision), have different scopes and focuses and will complement each other. In particular, the Basel III Level 2 assessment programme described in this document provides a narrower but deeper focus on the regulatory consistency with Basel III, while the assessment of the Core Principles considers the full range of the regulatory framework and supervisory practices.

Scope of the assessments

Basel III builds upon and enhances the regulatory framework provided by Basel II and Basel 2.5 (ie the July 2009 enhancements to Basel II), which now form integral parts of the Basel III framework. The assessments will thus cover the full set of components, including

2 http://www.financialstabilityboard.org/publications/r_111017.pdf.

those introduced by Basel II and 2.5 (see the annex for the detailed scope). This full set of requirements is referred to as ‘Basel III’ in this document.

Basel III’s liquidity ratios and the leverage ratio along with the additional loss absorbency requirement for global systemically important banks (G-SIBs) will be included in the assessments after the Committee concludes its review on any revisions or final adjustments, consistent with the agreed phase-in arrangements.

Certain jurisdictions, given their economic and development situation, that choose not to adopt some or all of the advanced approaches of Basel III for the measurement of risks will not be considered non-compliant when their compliance with the relevant provisions of Basel III is assessed; these provisions will be considered as non-applicable, in line with the approach adopted by the Committee when developing Basel II.[3]

Schedule of the assessments

All Basel Committee member countries will be assessed following the process presented in this document, with the first reviews commencing in 2012. Given the resources available and the intensity of the assessments planned, the Committee will not be able to review all countries at the same time and will do a limited number of reviews per year, with initial priority given to countries with G-SIBs. Nevertheless, it is intended that all jurisdictions will be covered over a multi-year timetable.

Given the limited discretion available for EU member countries, the focus of the review for the EU and its member countries will be the EU level regulations. A report on the European Union will be supplemented with a summary of the discretions exercised at the country level by each EU member country, but country specific reports will not be prepared.

Particularly in the early phases of the assessment programme, some assessments (or parts of them) might be based on draft or proposed domestic regulations. The part of any assessments based on non-final and non-binding documents will only be regarded as preliminary assessments and will be supplemented at a later stage by a follow-up assessment of the final domestic regulation. Preliminary assessments based on draft or proposed domestic regulations will be clearly distinguished from the assessments based on the final and complete regulations.

2. Assessment methodology

General approach

The objective of the assessment is to ensure that domestic regulations implementing Basel III comply with the agreed international minimum requirements. Although this document refers to “regulations”, the term is used solely for simplicity: the Committee is aware that Basel III can be implemented by different means depending on the legal and regulatory framework within a given jurisdiction. For the purpose of assessing compliance, the Committee will consider all binding documents that effectively implement Basel III.

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[3] Paragraph 7 of the Basel II document and its Simplified Standardised Approach in Annex 11 show the Committee’s intention to provide a range of options to allow supervisors to select approaches that are most appropriate for their financial market infrastructure.

The Level 2 assessment will focus on reviewing the **content** of domestic regulations (the extent to which Basel III is effectively enforced by supervisors or whether firms are actually complying with the rules of the Basel III framework will be assessed as part of the Level 3 assessment process). The assessment of compliance with the international rules will primarily be factual and will be based on two aspects:

- a comparison of domestic regulations with the international agreements to identify if all the required provisions of Basel III have been adopted (completeness of the regulation); and
- independent of the form of the requirements, whether there are any differences in substance between the domestic regulation and the international agreement (consistency of the regulation).

When a gap or a difference is identified, a key driver for assessing compliance will be its materiality and impact. To the extent possible, the materiality and impact will be quantified using all available data, including those submitted by the jurisdiction being assessed. The assessment will, in particular, seek to measure the significance of any identified difference(s) for internationally active banks or certain types of firms or businesses. The assessment will consider the current impact and consequences, but also its potential impact in the future.

The assessment will also seek to clarify the rationale for any identified gaps and differences between the domestic provisions and the corresponding international rules, with a view to ensuring a firm understanding of the specificities and drivers of local implementation. However, these elements will not be taken into account when assessing compliance: local specificities will not be seen as mitigants for going beyond the scope of national discretion specified within Basel III.

Domestic measures that strengthen the minimum requirements are fully in line with the nature of the international agreements, which are intended to set minimum requirements, and will therefore be considered as compliant. However, they will not be considered to compensate for inconsistencies or gaps identified elsewhere, unless they fully and directly address the identified inconsistencies or gaps.

Compliance scale

All assessments will be summarised using a four-grade scale: compliant, largely compliant, materially non-compliant and non-compliant.[4]

- Regulatory framework is *compliant* with Basel III: A regulation will be considered compliant with Basel III if all minimum provisions of the international framework have been satisfied and if no material differences have been identified which would give rise to prudential concerns or provide a competitive advantage to internationally active banks.
- Regulatory framework is *largely compliant* with Basel III: A regulation will be considered largely compliant with Basel III if only minor provisions of the international framework have not been satisfied and if only differences that have a

[4] This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's Core Principles for Effective Banking Supervision. The actual definition of the four grades has however been adjusted to take into account the different nature of the two exercises In addition, and as noted above, components of Basel III that are not relevant to an individual jurisdiction may be assessed as non-applicable.

limited impact on financial stability or the international level playing field have been identified.

- Regulatory framework is *materially non-compliant* with Basel III: A regulation will be considered materially non-compliant with Basel III if key provisions of Basel III have not been satisfied or if differences that could materially impact financial stability or the international level playing field have been identified.
- Regulation is *non-compliant* with Basel III. A regulation will be considered non-compliant with Basel III if Basel III has not been adopted or if differences that could severely impact financial stability or the international level playing field have been identified.

The outcome of the assessment process is expected to take the form of an overall assessment of the compliance of the jurisdiction's regulation with Basel III and assessments of the compliance of the jurisdiction's regulation for each of the key components of the capital framework as listed in the annex.

3. Assessment process

Each assessment will be based on peer review, and have three main steps: a preparatory phase, the assessment phase itself, and the review phase that will result in the approval of the conclusions of the assessment. A follow-up phase will also occur at a later point in time.

Phase 1: Preparatory phase

The preparatory phase will be used to establish the assessment team and to collect the relevant material.

(a) Establishment of assessment teams

Ad-hoc assessment teams will be established to conduct the assessment of individual jurisdictions. A typical team will involve 5-7 persons, comprising:

- a team leader with seniority and/or experience equivalent to those of a Committee member
- selected experts from member authorities; and
- member(s) of the Basel Committee Secretariat.

(b) Collection of Information and data

The preparatory phase will be used to collect the information needed for supporting the assessment. Jurisdictions will be requested to answer a detailed self-assessment questionnaire, using a standardised template, and to provide all components of the domestic regulation that implement Basel III at the domestic level. Relevant background documents should also be communicated, including in particular copies of the most recent FSAPs or other external assessments which cover capital adequacy regulation. The jurisdiction should also transmit any other document that could usefully inform the assessment.

Phase 2: Assessment phase

The assessment phase will rely on a combination of off-site and on-site assessments.

(a) Off-site assessment

The assessment team will analyse the compliance of the domestic regulations using all the information provided by the country, as well as other relevant information available to the Basel Committee. The assessment team may choose to consult the authorities within the jurisdiction being assessed during this period to seek additional information or clarification, or might consult relevant expert groups of the Basel Committee for an indicative view on certain technical issues. This phase should primarily seek to identify the issues that will need to be explored and discussed in more detail during the on-site review.

(b) On-site assessment

As a general principle, on-site reviews are expected to be conducted as part of the assessment process. On-site reviews will provide the best opportunity to ensure the correct understanding of issues related to the adoption and implementation of Basel III identified during the off-site review, by having exchanges with relevant experts and the senior authorities responsible for the transposition of Basel III into domestic regulations. The length and content of each on-site review will be set based on the complexity of the domestic implementation and on the materiality of the issue identified.

Domestic banking regulators and supervisors are expected to be the key counterparts of the assessment team during the on-site reviews, but meetings with other relevant parties (including the finance ministry or treasury, industry representatives, accounting representatives, analysts) may also take place to ensure that the assessment team collects a broad range of views and develops a sound understanding of local regulatory requirements. If scheduled, meetings with the private sector are expected to take place without the participation of representatives of the domestic authorities.

(c) Drafting of the assessment report

The information collected during the off-site and the on-site assessments will be used to prepare an assessment report. Jurisdictions being assessed will be given an opportunity to comment on the draft report before it is presented for the review phase.

Phase 3: Review phase

The review phase corresponds to the review of the assessment by a broader set of peers, the finalisation and approval of the report, and its subsequent publication.

(a) Review by the Standards Implementation Group

The substantive review by a broader set of peers will take place in the Standards Implementation Group (SIG) of the Basel Committee. The key objectives of the SIG's review of the assessment report are to (i) agree on the conclusions of the assessment and on the content of the report and (ii) to ensure that the assessment is consistent with the agreed methodology and the other assessments already performed. As part of this process, the jurisdiction being assessed will have the opportunity to present its views on the findings of the assessment report to the SIG.

(b) Approval by the Basel Committee

The Basel Committee has the final responsibility for approving the assessment report. The assessments will be approved by consensus. The representatives of the country assessed will not take part in the decision making but their views will be reflected in a separate section of the report if needed. If full consensus cannot be reached during the Committee meeting to which the report is presented, minority views will be footnoted in the report.

(c) Publication and communication of the assessments

After having been formally approved by the Committee, the report, including if applicable the separate views from the assessed jurisdiction, will be published on the Committee's website. The Committee member assessed will also be invited to publish the report in their home jurisdiction.

The report will also be transmitted to the FSB, consistent with its "*Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms*".

The main conclusions of the assessments will be periodically summarised and reflected in updates of the Committee's *Progress report on Basel III implementation*, to provide a comprehensive view of the situation across member countries.

Phase 4: Follow-up

The Committee will continue to monitor whether its members are updating their domestic regulations or introducing new regulations that could impact the assessments already performed. Where substantial regulatory developments or changes that could have a material impact on existing assessments take place, the Committee will take steps to update these assessments in a reasonable timeframe. The Committee may also update assessments when it concludes its review on any revisions or final adjustments of certain components of Basel III.

While the main objective of the assessment process is to ensure a full and consistent implementation of Basel III across countries, the process is also expected to usefully inform the Committee about implementation challenges or difficulties that countries may have faced or are facing when adopting Basel III. The process is also expected to contribute to identify potential gaps or interpretative issues within the Basel III framework. These elements, in combination with the outcome of its quantitative monitoring of Basel III impact, will be taken into account by the Basel Committee when determining its policy agenda and might result in issuing additional guidance or updating the rules if needed.

Annex 1

Scope of the assessment

Key components of the Basel framework	Inclusion in the assessments
Capital requirements	
Scope of application	Included
Transitional arrangements	Included
Definition of capital	Included
Pillar 1: Minimum capital requirements	
Credit Risk: Standardised Approach	Included
Credit risk: Internal Ratings-Based approach	Included if adopted
Credit risk: securitisation framework	Included
Counterparty credit risk rules	Included
Market risk: standardised measurement method	Included
Market risk: internal models approach	Included if adopted
Operational risk: Basic Indicator Approach and Standardised Approach	Included
Operational risk: advanced measurement approaches	Included if adopted
Capital buffers (conservation and countercyclical)	Included
G-SIB additional loss absorbency requirements	Included if relevant (1)
Pillar 2: Supervisory Review Process	
Legal and regulatory framework for the Supervisory Review Process and for taking supervisory actions	Included
Pillar 3: Market Discipline	
Disclosure requirements	Included
Liquidity standards	
Scope of application	Included (1)
Transitional arrangements	Included (1)
Liquidity Coverage Ratio	Included (1)
Net Stable Funding Ratio	Included (1)
Leverage ratio	
Leverage ratio	Included (1)

(1) To be included after the Committee concludes its review on any revisions or final adjustments.