Comparison between the 2012[1] and 2023 versions of the Core Principles

2012 Basel Core Principles	2023 Draft Core Principles
Principle 1 Responsibilities, objectives and powers: An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorise banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.	**Principle 1 Responsibilities, objectives and powers:**[1] An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorise banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns. [1] Reference documents: BCBS, Sound Practices: implications of fintech developments for banks and banking supervisors, February 2018; BCBS, Report on the impact and accountability of banking supervision, January 2015; BCBS, Principles for the supervision of financial conglomerates, September 2012; [SCO40].
Essential criteria: (1) The responsibilities and objectives of each of the authorities involved in banking supervision[43] are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps. [43] Such authority is called "the supervisor" throughout this chapter, except where the longer form "the banking supervisor" has been necessary for clarification.	Essential criteria: (1) The responsibilities and objectives of each of the authorities involved in banking supervision~~[43]~~ are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps.[2] ~~[43] Such authority is called "the supervisor" throughout this chapter, except where the longer form "the banking supervisor" has been necessary for clarification.~~ [2] If countries have shared or transferred prudential tasks to a supranational supervisor, the roles and responsibilities that have been shared or transferred are clearly set out in law and publicly disclosed. Any residual powers or responsibilities that are retained must be publicly disclosed so that there is clarity on the division of responsibility.
(2) The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it.	(2) The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it.

[1] As updated and revised by the Committee in 2019 as part of the migration of all standards to the consolidated framework format.

(3) Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile[44] and systemic importance.[45] [44] In this chapter, "risk profile" refers to the nature and scale of the risk exposures undertaken by a bank. [45] In this chapter, "systemic importance" is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in [SCO40].	(3) Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile~~[44]~~ and systemic importance.~~[45]~~ ~~[44] In this chapter, "risk profile" refers to the nature and scale of the risk exposures undertaken by a bank.~~ ~~[45] In this chapter, "systemic importance" is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in [SCO40].~~
(4) Banking laws, regulations and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate.	(4) Banking laws, regulations and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate, and published in a timely manner.
(5) The supervisor has the power to: (a) have full access to banks' and banking groups' Boards, management, staff and records in order to review compliance with internal rules and limits as well as external laws and regulations; (b) review the overall activities of a banking group, both domestic and cross-border; and (c) supervise the foreign activities of banks incorporated in its jurisdiction.	(5) The supervisor has the power to: (a) have full access to banks' and banking groups' boards,[3] management, staff and records (including records that are held by service providers and may be accessed either directly or through the supervised bank) ~~in order to review compliance with internal rules and limits as well as external laws and regulations~~; (b) review the overall activities of a banking group (including activities performed by service providers), ~~both~~ whether domestic ~~and~~ or cross-border; and (c) supervise the foreign activities of banks incorporated in its jurisdiction. [3] For this purpose, "access" includes supervisory access in person to the bank's premises, and to senior executive staff and the board (both individual members and as a whole) as needed.
(6) When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardise the bank or the banking system, the supervisor has the power to: (a) take (and/or require a bank to take) timely corrective action; (b) impose a range of sanctions; (c) revoke the bank's licence; and (d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate.	(6) When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is engaging or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardise the bank or the banking system, the supervisor has the power to: (a) take (and/or require a bank to take) timely corrective action; (b) impose a range of sanctions; (c) revoke the bank's licence; and (d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate..
(7) The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.	(7) The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group. The supervisor has access, whether directly or through the supervised bank, to all necessary information for conducting such a review irrespective of where it is available.

Principle 2 Independence, accountability, resourcing and legal protection for supervisors: the supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.	**Principle 2 Independence, accountability, resourcing and legal protection for supervisors:**[4] The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy, and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor. [4] Reference document: BCBS, Report on the impact and accountability of banking supervision, January 2015.
(1) The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision.	(1) The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to set prudential policy and take any supervisory actions or decisions on banks and banking groups under its supervision.
(2) The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is removed from office during his/her term only for reasons specified in law or if (s)he is not physically or mentally capable of carrying out the role or has been found guilty of misconduct. The reason(s) for removal is publicly disclosed.	(2) The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is (are) removed from office during ~~his/her~~their term only for reasons specified in law or if they are ~~(s)he is~~ not physically or mentally capable of carrying out the role or ~~has~~have been found guilty of misconduct. The reason(s) for removal is publicly disclosed.
(3) The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives.[46] [46] Please refer to Principle 1, Essential Criterion 1 [BCP01.65].	(3) The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives.~~[46]~~ The supervisor regularly communicates its supervisory priorities publicly. ~~[46] Please refer to Principle 1, Essential Criterion 1 [BCP01.65].~~
(4) The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest.	(4) The supervisor has effective internal governance and communication processes that enable timely supervisory decisions to be taken at a level appropriate to the significance of the issue and expedited procedures ~~timely decisions to be taken~~ in the case of an emergency. The allocation of responsibilities within the organisation as well as the delegation of authority for particular tasks or decisions should be clearly defined. Supervisory processes should include internal checks and balances to support effective decision-making and accountability. The governing body is structured to avoid any real or perceived conflicts of interest.
(5) The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.	(5) The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.

(6) The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes: (a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks and banking groups supervised; (b) salary scales that allow it to attract and retain qualified staff; (c) the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks; (d) a budget and programme for the regular training of staff; (e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks and banking groups; and (f) a travel budget that allows appropriate on-site work, effective cross-border cooperation and participation in domestic and international meetings of significant relevance (eg supervisory colleges).	(6) The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes: (a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks ~~and banking groups~~ supervised; (b) salary scales that allow it to attract and retain qualified staff; (c) the ability to commission external experts with the necessary professional skills and independence~~, and subject to necessary confidentiality restrictions~~ to conduct supervisory tasks subject to the necessary confidentiality restrictions; (d) a budget and programme for the regular training of staff; (e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks ~~and banking groups~~; and (f) a travel budget that allows appropriate on-site work, effective cross-border cooperation and participation in domestic and international meetings of significant relevance (eg supervisory colleges).
(7) As part of their annual resource planning exercise, supervisors regularly take stock of existing skills and projected requirements over the short- and medium-term, taking into account relevant emerging supervisory practices. Supervisors review and implement measures to bridge any gaps in numbers and/or skill-sets identified.	(7) As part of their annual resource planning exercise, supervisors regularly take stock of existing staff skills and projected requirements/needs over the short- and medium-term, ~~taking into account~~ considering relevant emerging risks and practices as well as supervisory ~~practices~~ developments. Supervisors review and implement measures to bridge any gaps in numbers and/or skillsets identified.
(8) In determining supervisory programmes and allocating resources, supervisors take into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available.	(8) In determining supervisory programmes and allocating resources, supervisors consider ~~take into account~~ the risk profile and systemic importance of individual banks and banking groups, and the different risk mitigation approaches available.
(9) Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith.	(9) Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith.[5] [5] The term "supervisor and its staff" is to be understood as covering the head of the authority, the governing body, employees and any professional service providers who carry out tasks for the supervisory authority. As the protection is provided in respect of actions taken and/or omissions made while discharging duties in good faith, it is not removed when the term of appointment, engagement or employment is ended.

Principle 3 Cooperation and collaboration: Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.[13] [13] Principle 3 is developed further in the Principles dealing with "Consolidated supervision" (12), "Home-host relationships" (13) and "Abuse of financial services" (29).	**Principle 3 Cooperation and collaboration:** Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.[6] [6] Principle 3 is developed further in ~~the~~ Principle~~s~~ 12 [BCP40.27], Principle 13 [BCP40.29] and Principle 29 [BCP40.66]~~dealing with "Consolidated supervision" (12), "Home-host relationships" (13) and "Abuse of financial services" (29)~~.
(1) Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.	(1) Arrangements, whether formal or informal, are in place for cooperation, including analysis and sharing of information~~,~~ and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.
	(2) Mechanisms are in place, whether formal or informal, for the supervisor to coordinate, within its mandate, with relevant authorities with responsibility for macroprudential policy when undertaking actions related to monitoring, identifying and addressing systemic risks that have the potential to affect the stability of the banking system.
(2) Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary.	(3) Arrangements, whether formal or informal, are in place for cooperation, including analysis and sharing of information~~,~~ and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary.
(3) The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.	(4) The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.
(4) The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose confidential information received to third parties without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession. In the event that the supervisor is legally compelled to disclose confidential information it has received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.	(5) The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose to third parties confidential information received ~~to third parties~~ without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) ~~for~~ to disclose confidential information in its possession. ~~In the event that~~ If the supervisor is legally compelled to disclose confidential information it has received from another supervisor, ~~the supervisor~~ it promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.
(5) Processes are in place for the supervisor to support resolution authorities (eg central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions.	(6) Processes are in place for the supervisor to support resolution authorities (eg central banks and finance ministries as appropriate) ~~to undertake~~ undertaking recovery and resolution planning and actions.

Principle 4 Permissible activities: the permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word "bank" in names is controlled.	**Principle 4 Permissible activities:** The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined, and the use of the word "bank" in names is controlled.
(1) The term "bank" is clearly defined in laws or regulations.	(1) The term "bank" is clearly defined in laws or regulations.
(2) The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.	(2) The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.
(3) The use of the word "bank" and any derivations such as "banking" in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.	(3) The use of the word "bank" and any derivations, such as "banking", in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.
(4) The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks.[47] [47] The Committee recognises the presence in some countries of non-banking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.	(4) The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks.[7] [7] The Committee recognises the existence ~~presence in some countries~~ of NBFIs ~~non-banking financial institutions~~ that take deposits or otherwise retain customers' funds (for example e-money) but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.
(5) The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.	(5) The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.
Principle 5 Licensing criteria: the licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management) of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home supervisor is obtained.	**Principle 5 Licensing criteria:**[8] The licensing authority has the power to set criteria for licensing banks and to reject applications where ~~for establishments that do not meet~~ the criteria are not met. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of board members and senior management) of the bank and its wider group, ~~and~~ its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home supervisor is obtained. [8] Reference documents: BCBS, Corporate governance principles for banks, July 2015; BCBS, Shell banks and booking offices, January 2003.
(1) The law identifies the authority responsible for granting and withdrawing a banking licence. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.	(1) The law identifies the authority responsible for granting and withdrawing a banking licence. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered~~,~~ and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.

(2) Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or supervisor determines that the licence was based on false information, the licence can be revoked.	(2) Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or supervisor determines that the licence was based on false information, the licence can be revoked.
(3) The criteria for issuing licences are consistent with those applied in ongoing supervision.	(~~3~~11) The criteria for issuing licences are consistent with those applied in ongoing supervision. The supervisor determines that banks continue to comply with the applicable criteria once they are licensed.
(4) The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis.[48] The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future. [48] Therefore, shell banks shall not be licensed. (Reference document: BCBS paper on shell banks, January 2003.)	(3) The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis.~~[48]~~ As such, shell banks must not be licensed. The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future. ~~[48] Therefore, shell banks shall must not be licensed. (Reference document: BCBS paper on shell banks, January 2003.)~~
(5) The licensing authority identifies and determines the suitability of the bank's major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.	(4) The licensing authority identifies and determines the suitability of the bank's major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.
(6) A minimum initial capital amount is stipulated for all banks.	(5) A minimum initial capital amount is stipulated for all banks.
(7) The licensing authority, at authorisation, evaluates the bank's proposed Board members and senior management as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: skills and experience in relevant financial operations commensurate with the intended activities of the bank; and no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank.[49] The licensing authority determines whether the bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks. [49] Please refer to Principle 14, Essential Criterion 8 [BCP01.95].	(6) ~~The licensing authority, at~~ At authorisation, the licensing authority evaluates the bank's proposed board members and senior management ~~as to~~ in terms of their expertise and integrity (fit and proper test), availability and time commitment to assume the responsibility and any potential for conflicts of interest. The fit and proper criteria include: skills and experience in relevant financial operations commensurate with the intended activities of the bank; and no record of criminal activities or adverse regulatory judgments that make a person unfit to ~~up~~hold important positions in a bank.[9] The licensing authority determines whether the bank's board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks. The supervisor should re-assess the suitability of board members in case of significant events (eg change of control or major acquisition) or upon receipt of information that impacts their fitness and propriety. [9] ~~Please r~~Refer to Principle 14, essential criterion 8 [BCP40.32].

(8) The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.[50] [50] Please refer to Principle 29 [BCP01.33](29).	(7) The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities~~,~~[10] as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.~~[50]~~ [10] ~~Please r~~Refer to Principle 29 [BCP40.66].
(9) The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.	(8) The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.
(10) In the case of foreign banks establishing a branch or subsidiary, before issuing a licence, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision.	(9) In the case of foreign banks establishing a branch or subsidiary, before issuing a licence, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision and uses this information to inform its approach to licensing and supervision.
(11) The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the licence approval are being met.	(10) The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that the supervisory requirements outlined in the licence approval are being met.
Principle 6 Transfer of significant ownership: The supervisor[15] has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties. [15] While the term “supervisor” is used throughout Principle 6, the Committee recognises that in a few countries these issues might be addressed by a separate licensing authority.	**Principle 6 Transfer of significant ownership:**[11] The supervisor[12] has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties. [11] Reference documents: BCBS, Parallel-owned banking structures, January 2003; BCBS, Shell banks and booking offices, January 2003. [12] While the term “supervisor” is used throughout Principle 6, the Committee recognises that in a few countries these issues might be addressed by a separate licensing authority.
(1) Laws or regulations contain clear definitions of “significant ownership” and “controlling interest”.	(1) Laws or regulations contain clear definitions of “significant ownership” and “controlling interest”.
(2) There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest.	(2) There are requirements to obtain supervisory approval or provide immediate notification ~~of~~ with respect to proposed changes that would result in a change in ownership~~,~~ (including beneficial ownership), ~~or~~ to the exercise of voting rights over a particular threshold or to a change in controlling interest.

(3) The supervisor has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.	(3) The supervisor has the power to reject any proposal for a change in significant ownership (including beneficial ownership) or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable ~~to~~ with those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.
(4) The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.	(4) The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.
(5) The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to or approval from the supervisor.	(5) The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to, or approval from, the supervisor.
(6) Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest.	(6) Laws, ~~or~~ regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest.
Principle 7 Major acquisitions: the supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.	**Principle 7 Major acquisitions:** The supervisor has the power to: (i) approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on~~,~~ major acquisitions or investments by a bank (including the establishment of cross-border operations), against prescribed criteria~~,~~ ~~including the establishment of cross-border operations,~~ and (ii) ~~to~~ determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.
(1) Laws or regulations clearly define: (a) what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval; and (b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.	(1) Laws or regulations clearly define: (a) what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval; and (b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.
(2) Laws or regulations provide criteria by which to judge individual proposals.	(2) Laws or regulations provide criteria by which to judge individual bank proposals for acquisitions and investments.

(3) Consistent with the licensing requirements, among the objective criteria that the supervisor uses is that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.[51] The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis. [51] In the case of major acquisitions, this determination may take into account whether the acquisition or investment creates obstacles to the orderly resolution of the bank.	(3) The supervisor determines ~~Consistent with the licensing requirements, among the objective criteria that the supervisor uses is~~ that any new acquisitions and investments ~~do~~ will not expose the bank to undue risks or hinder effective supervision~~,~~ and (where appropriate) that they ~~The supervisor also determines, where appropriate, that these new acquisitions and investments~~ will not hinder effective implementation of corrective measures in the future.[13] The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. In making this assessment, ~~The~~ the supervisor ~~takes into consideration~~considers the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis. [13] ~~In the case of major acquisitions, this determination~~ The supervisor may ~~take into account~~ consider whether the acquisition or investment creates obstacles to the orderly resolution of the bank.
(4) The supervisor determines that the bank has, from the outset, adequate financial, managerial and organisational resources to handle the acquisition / investment.	(4) The supervisor determines that the bank has, from the outset, adequate financial, managerial and organisational resources to ~~handle~~ manage the acquisition/investment.
(5) The supervisor is aware of the risks that non-banking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in non-banking activities.	(5) The supervisor is aware of the risks that non-banking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in non-banking activities.
	(6) The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.[52] Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments.
Additional criterion: (1) The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.[52] Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments. [52] Please refer to [BCP01.77] footnote 51.	~~Additional criterion:~~ ~~(1) The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.[52] Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments.~~ ~~[52] Please refer to [BCP01.77] footnote 51.~~

Principle 8 Supervisory approach: an effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.	**Principle 8 Supervisory approach:**[14] An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable. [14] Reference documents: BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Frameworks for early supervisory intervention, March 2018; BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; BCBS, Guidelines for identifying and dealing with weak banks, July 2015; [SRP10], [SRP20], [SCO50].
(1) The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact and scope of the risks which banks or banking groups are exposed to, including risks posed by entities in the wider group; and which banks or banking groups present to the safety and soundness of the banking system. The methodology addresses, among other things, the business focus, group structure, risk profile, internal control environment and the resolvability of banks, and permits relevant comparisons between banks. The frequency and intensity of supervision of banks and banking groups reflect the outcome of this analysis. (2) The supervisor has processes to understand the risk profile of banks and banking groups and employs a well defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each bank is based on the results of this analysis.	(1) The supervisor uses a well defined methodology and processes to ~~for~~ determine ~~determining~~ and assess ~~assessing~~ on an ongoing basis the nature, impact and scope of the risks: (a) which banks ~~or banking groups~~ are exposed to~~,~~ ~~including risks posed by entities in the wider group~~; and (b) which banks ~~or banking groups~~ present to the safety and soundness of the banking system (including implications for and interlinkages with financial system stability). The methodology and processes addresses, among other things, ~~the~~ banks' group structure (including risks posed by entities in the wider group); risks around banks' business model sustainability, including their ability to design and implement sound and forward-looking strategies to generate sustainable returns over time; banks' risk profile with a forward-looking view[15], their internal control environment and ~~the~~ their resolvability ~~of banks~~. ~~and~~ The methodology permits relevant comparisons between banks,~~.~~ and the nature, frequency and intensity of supervision of banks reflect the outcome of this analysis. [15] The time horizon for establishing a forward-looking view should appropriately reflect climate-related financial risks and emerging risks as needed.
	(2) The supervisor, in conjunction with relevant authorities where appropriate, uses a process to assess and identify which banks are systemically important in a domestic context. Supervisors should publicly disclose information that provides an outline of the process employed to assess and determine systemic importance. The supervisor should conduct these assessments sufficiently regularly to ensure they reflect the current state of the domestic financial system.
(3) The supervisor assesses banks' and banking groups' compliance with prudential regulations and other legal requirements.	(3) The supervisor assesses banks' ~~and banking groups'~~ compliance with prudential regulations and other legal requirements.

(4) The supervisor takes the macroeconomic environment into account in its risk assessment of banks and banking groups. The supervisor also takes into account cross-sectoral developments, for example in non-bank financial institutions, through frequent contact with their regulators.	(4) The supervisor considers ~~takes~~the macroeconomic environment ~~into account~~, climate-related financial risks and emerging risks in its risk assessment of banks ~~and banking groups~~. The supervisor also ~~takes into account~~ considers cross-sectoral developments, for example in NBFIs ~~non-bank financial institutions~~, through frequent contact with their regulators.
(5) The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses the build-up of risks, trends and concentrations within and across the banking system as a whole. This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs). The supervisor incorporates this analysis into its assessment of banks and banking groups and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks identified to banks and to other relevant authorities with responsibilities for financial system stability.	(5) The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses: (a) the build-up and transmission of risks, trends and concentrations within and across the banking system as a whole; ~~This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs).~~ (b) any emerging or system-wide risks which could impact banks and the banking system as a whole; and (c) common behaviours by banks that may adversely affect the stability of the banking system (including implications for and interlinkages with financial system stability). The supervisor incorporates this analysis into its assessment of banks ~~and banking groups~~ and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks ~~identified to banks and~~ to other relevant authorities with responsibilities for financial system stability.
(6) Drawing on information provided by the bank and other national supervisors, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability where appropriate, having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, where necessary, banks to adopt appropriate measures, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures take into account their effect on the soundness and stability of ongoing business.	(6) Drawing on information provided by the bank and other domestic authorities ~~national supervisors~~, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability (where appropriate)~~,~~ having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires~~, where necessary,~~ banks to adopt appropriate measures, where necessary, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures ~~take into account~~ consider their effect on the soundness and stability of the bank's ongoing business.
(7) The supervisor has a clear framework or process for handling banks in times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.	(7) The supervisor has a clear framework or process (eg identification of risk and early intervention) for handling banks~~,~~ in the build-up to and during ~~in~~ times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.
(8) Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority. Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this.	(8) ~~Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority.~~ Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this. Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority to address regulatory arbitrage.

Principle 9 Supervisory techniques and tools: the supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks.	**Principle 9 Supervisory techniques and tools:** The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, ~~taking into account~~ considering the risk profile and systemic importance of banks.
(1) The supervisor employs an appropriate mix of on-site[53] and off-site[54] supervision to evaluate the condition of banks and banking groups, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between on-site and off-site supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its on-site and off-site functions, and amends its approach, as needed. [53] On-site work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc. [54] Off-site work is used as a tool to regularly review and analyse the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further off-site and on-site work, etc.	(1) The supervisor employs an appropriate mix of on-site~~[53]~~ and off-site~~[54]~~ supervision to evaluate the condition of banks~~ and banking groups~~, their risk profile, their internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between on-site and off-site supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its on-site and off-site functions~~,~~ and amends its approach, as needed. ~~[53] On-site work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc.~~ ~~[54] Off-site work is used as a tool to regularly review and analyse the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further off-site and on-site work, etc.~~
(2) The supervisor has a coherent process for planning and executing on-site and off-site activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the on-site and off-site functions.	(2) The supervisor has a coherent process for planning and executing on-site and off-site activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information-sharing between the on-site and off-site functions.
(3) The supervisor uses a variety of information to regularly review and assess the safety and soundness of banks, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns, information on a bank's related entities, and publicly available information. The supervisor determines that information provided by banks is reliable[55] and obtains, as necessary, additional information on the banks and their related entities. [55] Please refer to Principle 10 [BCP01.33](10).	(3) The supervisor uses a ~~variety~~ range of information to regularly review and assess the safety and soundness of banks and the stability of the banking system, the evaluation of material risks, and the identification of necessary corrective ~~actions~~ and supervisory actions. This includes information~~,~~ such as prudential reports, statistical returns, information on a bank's related entities~~,~~ and publicly available information. The information received on banks is used by supervisors to form a holistic view and understanding of their risk profile. The supervisor determines that information provided by banks is reliable[16] and obtains, as necessary, additional information on ~~the~~ banks and their related entities. [16] ~~Please r~~Refer to Principle 10 [BCP40.23]

(4)The supervisor communicates its findings to the bank as appropriate and requires the bank to take action to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any. The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, such as those listed below. (a) analysis of financial statements and accounts; (b) business model analysis; (c) horizontal peer reviews; (d) review of the outcome of stress tests undertaken by the bank; and (e) analysis of corporate governance, including risk management and internal control systems.	(4) ~~The supervisor communicates its findings to the bank as appropriate and requires the bank to take action to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any.~~ The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, ~~such as those listed below,~~ including: (a) analysis of financial statements and accounts; (b) business model analysis; (c) horizontal peer reviews; ~~(d) review of the outcome of stress tests undertaken by the bank; and~~ (~~e~~d) analysis of corporate governance, including risk management and internal control systems~~.~~; (e) reviews of the outcome of stress tests undertaken by ~~the~~ banks; and (f) assessments of the adequacy of banks' capital and liquidity levels under adverse economic scenarios, which may include conducting supervisory stress tests on individual banks or system wide. The supervisor uses its analysis to determine follow-up work required, if any.
(5) The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide). The supervisor communicates its findings as appropriate to either banks or the industry and requires banks to take action to mitigate any particular vulnerabilities that have the potential to affect the stability of the banking system, where appropriate. The supervisor uses its analysis to determine follow-up work required, if any.	(5) ~~The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide).~~ Based on the information provided by banks and its own analysis, the supervisor communicates its findings to banks as appropriate ~~to either banks or the industry~~ and requires them ~~banks~~ to take action to mitigate any particular vulnerabilities that have the potential to affect their safety and soundness or the stability of the banking system~~,~~ ~~where appropriate~~ (including implications for and interlinkages with financial system stability).~~The supervisor uses its analysis to determine follow-up work required, if any.~~
(6) The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.	(6) The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.
(7) The supervisor maintains sufficiently frequent contacts as appropriate with the bank's Board, non-executive Board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank's Board and senior management on the assumptions made in setting strategies and business models.	(7) The supervisor ~~maintains~~ engages sufficiently frequently ~~contacts as appropriate~~ with the bank's board, non-executive board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank's board and senior management on the assumptions made in setting strategies and business models.

(8) The supervisor communicates to the bank the findings of its on- and off-site supervisory analyses in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the Board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank's independent Board members, as necessary.	(8) The supervisor communicates to the bank the findings of its on- and off-site supervisory analyses in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the board to discuss the results of supervisory examinations and ~~the~~ external audits, as appropriate. The supervisor also meets separately with the bank's independent board members, as necessary.
(9) The supervisor undertakes appropriate and timely follow-up to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's Board if action points are not addressed in an adequate or timely manner.	(9) The supervisor undertakes appropriate and timely follow-up activities to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's board if action points are not addressed in an adequate or timely manner.
(10) The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.	(10) The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breaches of legal or prudential requirements.
(11) The supervisor may make use of independent third parties, such as auditors, provided there is a clear and detailed mandate for the work. However, the supervisor cannot outsource its prudential responsibilities to third parties. When using third parties, the supervisor assesses whether the output can be relied upon to the degree intended and takes into consideration the biases that may influence third parties.	(11) The supervisor may use independent third parties, including external experts, but it cannot outsource its prudential responsibilities to third parties. Where third parties are used, the supervisor: (a) clearly defines and documents their roles and responsibilities, including the scope of work where they are appointed to conduct supervisory tasks; (b) assesses their suitability for the designated task(s), the quality of their work and whether their output can be relied upon to the degree intended; (c) considers the biases that may influence them; and (d) requires that they bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes.
(12) The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action.	(12) The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action.
Additional criterion: (1) The supervisor has a framework for periodic independent review, for example by an internal audit function or third party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and their use, and makes changes as appropriate.	Additional criterion: (1) The supervisor has a framework for periodic independent review, for example by an internal audit function, internal risk function, or third-party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and the effectiveness of their use, and makes changes as appropriate. The supervisory approach should be reviewed at periodic intervals and improved as necessary to ensure it remains effective and fit for purpose.

Principle 10 Supervisory reporting: the supervisor collects, reviews and analyses prudential reports and statistical returns[16] from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts. [16] In the context of this Principle, "prudential reports and statistical returns" are distinct from and in addition to required accounting reports. The former are addressed by this Principle, and the latter are addressed in Principle 27.	**Principle 10 Supervisory reporting:**[17] The supervisor collects, reviews and analyses prudential reports and statistical returns[18] from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts. [17] Reference documents: BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; BCBS, Principles for the supervision of financial conglomerates, September 2012. [18] In the context of this principle, "prudential reports and statistical returns" are distinct from and required in addition to ~~required~~ mandatory accounting reports. The former are addressed by this principle, and the latter are addressed in Principle 27 [BCP40.61].
(1) The supervisor has the power[56] to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, and market risk. [56] Please refer to Principle 2 [BCP01.33](2).	(1) The supervisor has the power~~[56]~~ to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance~~,~~ and risk exposures, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, ~~and~~ market risk and information that allows for the assessment of the materiality of climate-related financial risks and emerging risks to banks. ~~[56] Please refer to Principle 2 [BCP01.33](2).~~
(2) The supervisor provides reporting instructions that clearly describe the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.	(2) The supervisor provides reporting instructions that clearly describe the ~~accounting~~ standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.
(3) The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximises the use of relevant and reliable inputs and are consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to make adjustments to its reporting for capital adequacy or regulatory reporting purposes.	(3) The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximises the use of relevant and reliable inputs ~~and~~ which are consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to adjust ~~make adjustments to~~ its reporting for capital adequacy or regulatory reporting purposes.
(4) The supervisor collects and analyses information from banks at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the bank.	(4) The supervisor collects and analyses information from banks at a frequency commensurate with the nature of the information requested~~,~~ and the risk profile and systemic importance of the bank.

(5) In order to make meaningful comparisons between banks and banking groups, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and related to the same dates (stock data) and periods (flow data).	(5) ~~In order to~~ To make meaningful comparisons between banks ~~and banking groups~~, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and ~~related to~~ for the same dates (stock data) and periods (flow data).
(6) The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. This includes internal management information.	(6) The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is: (a) material to the condition of the bank ~~or banking group~~; (b) material to the assessment of the risks of the bank ~~or banking group~~; or (c) needed to support resolution planning. This includes, but is not limited to, internal management information, corporate governance information, transactions with the wider group (eg any NBFI entities) and related party transactions.
(7) The supervisor has the power to access[57] all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management and staff, when required. [57] Please refer to Principle 1, Essential Criterion 5 [BCP01.65].	~~(7) The supervisor has the power to access[57] all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management and staff, when required.~~ ~~[57] Please refer to Principle 1, Essential Criterion 5 [BCP01.65].~~
(8) The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines the appropriate level of the bank's senior management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.	(7) The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines the appropriate level of the bank's senior management that is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.
(9) The supervisor utilises policies and procedures to determine the validity and integrity of supervisory information. This includes a programme for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts.[58] [58] May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.	(8) The supervisor utilises policies and procedures to determine the validity and integrity of supervisory information. This includes a programme for the periodic verification of supervisory returns by ~~means~~ either ~~of~~ the supervisor's own staff or ~~of~~ by external experts.~~[58]~~ ~~[58] May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.~~

(10) The supervisor clearly defines and documents the roles and responsibilities of external experts,[59] including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the output/recommendations by external experts. External experts may be utilised for routine validation or to examine specific aspects of banks' operations. [59] May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.	~~(10) The supervisor clearly defines and documents the roles and responsibilities of external experts,[59] including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the output/recommendations by external experts. External experts may be utilised for routine validation or to examine specific aspects of banks' operations.~~ ~~9] May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.~~
(11) The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes.	~~(11) The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes~~
(12) The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need.	(9) The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need.
Principle 11 Corrective and sanctioning powers of supervisors: the supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking licence or to recommend its revocation.	**Principle 11 Corrective and sanctioning powers of supervisors:**[19] The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking licence or to recommend its revocation. [19] Reference document: BCBS, Parallel-owned banking structures, January 2003.
(1) The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board. The supervisor requires the bank to submit regular written progress reports and checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.	(1) The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's board. The supervisor requires the bank to submit regular written progress reports, and it checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.
(2) The supervisor has available[60] an appropriate range of supervisory tools for use when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened. [60] Please refer to Principle 1 [BCP01.33](1).	(2) The supervisor uses applicable ~~has available[60] an appropriate range of~~ supervisory tools[20] ~~for use~~ when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened. [20] ~~Please r~~Refer to Principle 1, essential criterion 1 [BCP40.5]

(3) The supervisor has the power to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements. The supervisor has a range of options to address such scenarios.	(3) The supervisor ~~has the~~ uses its powers to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor ~~also has the power to~~ intervenes at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements. ~~The supervisor has a range of options to address such scenarios.~~
(4) The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in [BCP01.87](2) above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking licence.	(4) The supervisor uses~~has available~~ a broad range of possible measures to address, at an early stage, such scenarios as described in [BCP40.26(2)]~~ above~~. These measures include the ability to impose sanctions expeditiously or require a bank to take timely corrective action ~~or to impose sanctions expeditiously~~. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking licence.
(5) The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the Board, or individuals therein.	(5) The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the board, or relevant individuals~~ therein~~. The supervisor has the power to apply concomitantly corrective measures and sanctioning measures, including financial penalties.
(6) The supervisor has the power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.	(6) The supervisor ~~has the~~ exercises its power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.
(7) The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank situation (which could include closure, or assisting in restructuring, or merger with a stronger institution).	(7) The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank ~~situation~~ (which could include closure, ~~or~~ assisting in restructuring, or merger with a stronger institution).
	(8) Laws, regulations or the supervisor establish a clear policy on whether imposed sanctions should be made a matter of public knowledge and in that case, what to disclose and when. The decision to publish sanctioning or corrective measures applied to banks and individuals (eg senior managers, board members, directors, officers and other employees), may be subject to confidentiality considerations and it must not jeopardise other supervisory objectives or prejudice another case pending before the supervisor. While the transparency of enforcement measures is encouraged, the decision to disclose sanctions can be made on a case by case basis, depending on their seriousness and the frequency of their occurrence.

	(9) Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions.
	(10) Where appropriate, when taking formal corrective action in relation to a bank, the supervisor informs the supervisor of non-bank related financial entities of its actions and coordinates its actions with them.
Additional criteria: (1) Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions.	~~Additional criteria:~~ ~~(1) Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions.~~
(2) When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of non-bank related financial entities of its actions and, where appropriate, coordinates its actions with them.	~~(2) When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of non-bank related financial entities of its actions and, where appropriate, coordinates its actions with them.~~
Principle 12 Consolidated supervision: an essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.	**Principle 12 Consolidated supervision:**[21] ~~an essential element of banking supervision is that~~ The supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide. [21] Reference documents: BCBS, Principles for the supervision of financial conglomerates, September 2012; BCBS, Home-host information sharing for effective Basel II implementation, June 2006; BCBS, The supervision of cross-border banking, October 1996; BCBS, Principles for the supervision of banks' foreign establishments, May 1983; BCBS, Consolidated supervision of banks' international activities, March 1979; [SCO10].
(1) The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including non-banking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardise the safety and soundness of the bank and the banking system.	(1) The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including non-banking activities) conducted by entities in the wider group, ~~both~~ whether domestic ~~and~~ or cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardise the safety and soundness of the bank and the banking system.
(2) The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure.	(2) The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure.

(3) The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations.	(3) The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance. The supervisor determines that ~~and there is no hindrance in host countries for the~~ parent banks ~~to~~ have unimpeded access to all ~~the~~ material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor ~~takes into account~~considers the effectiveness of supervision conducted in the host countries in which its banks have material operations.
(4) The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct on-site examinations of a bank's foreign operations, or require additional reporting, and has the power and resources to take those steps as and when appropriate.	(4) The home supervisor visits the foreign offices of the bank periodically. The location and frequency ~~being determined~~of these visits are determined by the risk profile and systemic importance of the bank's foreign operations. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct on-site examinations of a bank's foreign operations~~,~~ or require additional reporting, and it has the power and resources to take those ~~steps~~ actions as and when appropriate.
(5) The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group, and takes appropriate supervisory action.	(5) The supervisor reviews the main activities of parent companies~~,~~ and of companies affiliated with the parent companies~~,~~ that have a material impact on the safety and soundness of the bank and the banking group~~,~~ and takes appropriate supervisory action.
(6) The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that: (a) the safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed; (b) the supervision by other supervisors is not adequate relative to the risks the activities present; and/or (c) the exercise of effective supervision on a consolidated basis is hindered.	(6) The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that: (a) the safety and soundness of the bank ~~and banking group~~ is compromised because the activities expose ~~the bank or banking group~~ it to excessive risk and/or are not properly managed; (b) the supervision by other ~~supervisors~~ domestic authorities is not adequate relative to the risks the activities present; and/or (c) the exercise of effective supervision on a consolidated basis is hindered.
(7) In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group.[61] [61] Please refer to Principle 16, Additional Criterion 2 [BCP01.102].	(7) In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a ~~stand-alone~~ solo basis and understands its relationship with other members of the group.[22] [22] ~~Please r~~Refer to Principle 16, additional criterion 2 [BCP40.38].
	(8) For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies.

Additional criterion: (1) For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies.	~~Additional criterion:~~ ~~(1) For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies.~~
Principle 13 Home-host relationships: home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.	**Principle 13 Home-host relationships:**[23] Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks. [23] Reference documents: Financial Stability Board (FSB) Key Attributes for Effective Resolution Regimes for Financial Institutions, October 2014; BCBS, Principles for effective supervisory colleges, June 2014; BCBS, Home-host information sharing for effective Basel II implementation, June 2006; BCBS, High-level principles for the cross-border implementation of the New Accord, August 2003; BCBS, Shell banks and booking offices, January 2003; BCBS, The supervision of cross-border banking, October 1996; BCBS, Information flows between banking supervisory authorities, April 1990; BCBS, Principles for the supervision of banks' foreign establishments, May 1983.
(1) The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors.	(1) The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, ~~taking into account~~ considering the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and ~~who, therefore, has~~ a shared interest in the effective supervisory oversight of the banking group~~,~~ is included in the college. The structure of the college reflects: (i) the nature of the banking group, including its scale, structure and complexity, and its significance in host jurisdictions; and (ii) the opportunity to enhance mutual trust and meet the needs and responsibilities of both home and host ~~its~~ supervisors.
(2) Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the banking group[62] and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information. [62] See Principle 3 of the Basel's Committee's Principles for effective supervisory colleges for further information on the extent of information sharing expected.	(2) Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information ~~both~~ on: (a) the material risks (including those arising from the respective macroeconomic environments) and risk management practices of the banking group;~~[62]~~ and (b) ~~on~~ the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding and confidentiality agreements) are in place to enable the timely exchange of confidential information. ~~[62] See Principle 3 of the Basel's Committee's Principles for effective supervisory colleges for further information on the extent of information sharing expected.~~

(3) Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order to improve the effectiveness and efficiency of supervision of cross-border banking groups.	(3) Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified ~~in order~~ to improve the effectiveness and efficiency of supervision of cross-border banking groups.
(4) The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues.	(4) The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure the consistency of messages on group-wide issues.
(5) Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.	(5) Where appropriate, ~~due to~~ given the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage, subject to rules on confidentiality, in a way that does not materially compromise the prospect of a successful resolution ~~and subject to the application of rules on confidentiality~~.
(6) Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.	(6) Where appropriate, ~~due to~~ given the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also ~~alert~~ notify and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.
(7) The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.	(7) The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.
(8) The home supervisor is given on-site access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.	(8) The home supervisor is given on-site access to local offices and subsidiaries of a banking group ~~in order~~ to facilitate ~~their~~ its assessment of the group's safety and soundness and compliance with customer due diligence (CDD) requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.
(9) The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.	(9) The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.
(10) A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action.	(10) A supervisor that takes ~~consequential~~ action based on ~~the basis of~~ information received from, or that is consequential for the work of, another supervisor consults ~~with~~ that supervisor, to the extent possible, before taking such action.

Principle 14 Corporate governance: the supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organisational structure, control environment, responsibilities of the banks' Boards and senior management, and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.	**Principle 14 Corporate governance:**[24] The supervisor determines that banks ~~and banking groups~~ have robust corporate governance policies and processes covering, for example, corporate culture and values, strategic direction and oversight, group and organisational structure, the control environment, the suitability assessment process, the responsibilities of the banks' boards and senior management, and compensation practices. These policies and processes are commensurate with the risk profile and systemic importance of the bank. [24] Reference documents: FSB, Strengthening Governance Frameworks to Mitigate Misconduct Risk – A Toolkit for Firms and Supervisors, April 2018; FSB, Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices – The Use of Compensation Tools to Address Misconduct Risk, March 2018; BCBS, Corporate Governance Principles for Banks, July 2015; FSB, Guidance on Supervisory Interaction with Financial Institutions on Risk Culture – A Framework for Assessing Risk Culture, April 2014; FSB, Principles and Standards on Sound Compensation Practices, April 2009.
(1) Laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks and banking groups on expectations for sound corporate governance.	(1) Laws, regulations or the supervisor establish the responsibilities of a bank's board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks ~~and banking groups~~ on expectations for sound corporate governance.
(2) The supervisor regularly assesses a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks and banking groups to correct deficiencies in a timely manner.	(2) The supervisor regularly conducts comprehensive evaluations of~~assesses~~ a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks ~~and banking groups~~ to correct deficiencies in a timely manner.
(3) The supervisor determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group. Board membership includes experienced non-executive members, where appropriate. Commensurate with the risk profile and systemic importance, Board structures include audit, risk oversight and remuneration committees with experienced non-executive members.	(3) The supervisor determines that governance structures and processes for nominating and appointing board members are appropriate for the bank ~~and across the banking group~~. Board members should include a balance of knowledge, skills, diversity and experience. Board membership includes experienced non-executive members~~,~~ with sufficient independence to challenge management ~~where appropriate~~. Boards regularly review their performance, and membership is regularly renewed to refresh skills and independence. Commensurate with the bank's risk profile and systemic importance, board structures include audit, risk oversight and remuneration committees with experienced, independent non-executive members.

(4) Board members are suitably qualified, effective and exercise their "duty of care" and "duty of loyalty".[63] [63] The Organisation of Economic Cooperation and Development (OECD) glossary of corporate governance-related terms in "Experiences from the Regional Corporate Governance Roundtables", 2003, www.oecd.org/dataoecd/19/26/23742340.pdf defines "duty of care" as "The duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a 'prudent man' would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgement rule." The OECD defines "duty of loyalty" as "The duty of the board member to act in the interest of the company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders."	(4) Board members are suitably qualified (individually and collectively) and effective and exercise their "duty of care" and "duty of loyalty".[25] [25] The Committee defines: (i) "duty of care" as the duty of board members to decide and act on an informed and prudent basis with respect to the bank. This is often interpreted as requiring board members to approach the affairs of the company the same way that a "prudent person" would approach his or her own affairs; and (ii) "duty of loyalty" as the duty of board members to act in good faith in the interest of the company. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and shareholders.~~The Organisation of Economic Cooperation and Development (OECD) glossary of corporate governance-related terms in "Experiences from the Regional Corporate Governance Roundtables", 2003, www.oecd.org/dataoecd/19/26/23742340.pdf defines "duty of care" as "The duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a 'prudent man' would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgement rule." The OECD defines "duty of loyalty" as "The duty of the board member to act in the interest of the company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders."~~
(5) The supervisor determines that the bank's Board approves and oversees implementation of the bank's strategic direction, risk appetite[64] and strategy, and related policies, establishes and communicates corporate culture and values (eg through a code of conduct), and establishes conflicts of interest policies and a strong control environment. [64] "Risk appetite" reflects the level of aggregate risk that the bank's Board is willing to assume and manage in the pursuit of the bank's business objectives. Risk appetite may include both quantitative and qualitative elements, as appropriate, and encompass a range of measures. For the purposes of this document, the terms "risk appetite" and "risk tolerance" are treated synonymously.	(5) The supervisor determines that the bank's board approves and oversees implementation of the bank's strategic direction, risk appetite~~[64]~~ and strategy, and related policies, establishes and communicates corporate culture and values (eg through a code of conduct)[26], and establishes conflicts of interest policies and a strong control environment. ~~[64] "Risk appetite" reflectsmeans the aggregate level and types of aggregate risk a bank that the bank's Board is willing to assume, decided in advance and within its risk capacity (that is, the maximum amount of risk a bank is able to assume given its capital base, risk management and control capabilities as well as its regulatory constraints), to achieve its strategic objectives and business plan and manage in the pursuit of the bank's business objectives. Risk appetite may include both quantitative and qualitative elements, as appropriate, and encompass a range of measures. For the purposes of this document, the terms "risk appetite" and "risk tolerance" are treated synonymously.~~ [26] This includes whistleblowing policies and procedures that protect employees from reprisals or other detrimental treatment.

(6) The supervisor determines that the bank's Board, except where required otherwise by laws or regulations, has established fit and proper standards in selecting senior management, maintains plans for succession, and actively and critically oversees senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them.	(6) The supervisor determines that the bank's board, except where required otherwise by laws or regulations: (a) has established fit and proper standards in selecting senior management and heads of the control functions; (b) has developed effective processes to allocate authority, responsibility and accountability within the bank; (c) maintains plans for succession; and (d) actively and critically oversees senior management's execution of board strategies, including monitoring the performance of senior management~~'s performance~~ and heads of the control function against the standards established for them.
(7) The supervisor determines that the bank's Board actively oversees the design and operation of the bank's and banking group's compensation system, and that it has appropriate incentives, which are aligned with prudent risk taking. The compensation system, and related performance standards, are consistent with long-term objectives and financial soundness of the bank and is rectified if there are deficiencies.	(7) The supervisor determines that the bank's board actively oversees the design and operation of the bank's ~~and banking group's~~ compensation system~~,~~ and that it has appropriate incentives, which are aligned with prudent risk-taking and effective in addressing conduct that potentially results in losses. The compensation system and related performance standards, policies and procedures, are: transparent, non-discriminatory, consistent with the long-term objectives and financial soundness of the bank and are rectified if there are deficiencies.
(8) The supervisor determines that the bank's Board and senior management know and understand the bank's and banking group's operational structure and its risks, including those arising from the use of structures that impede transparency (eg special-purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.	(8) The supervisor determines that the bank's board and senior management know and understand the bank's ~~and banking group's~~ operational structure and its risks, including those arising from the use of structures that impede transparency (eg special ~~-~~purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.
(9) The supervisor has the power to require changes in the composition of the bank's Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.	(9) The supervisor has the power to require changes in the composition of the bank's board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.
	(10) Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's board member or a member of the senior management.
Additional criterion: (1) Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's Board member or a member of the senior management.	~~Additional criterion:~~ ~~(1) Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's Board member or a member of the senior management.~~

Principle 15 Risk management process: The supervisor determines that banks[19] have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate[20] all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.[21] [19] For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 11) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group. [20] To some extent the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents. [21] It should be noted that while, in this and other Principles, the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's Board and senior management.	**Principle 15 Risk management process:**[27] The supervisor determines that banks~~[19]~~ have a comprehensive risk management process (including effective board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate[28] all material risks (including, but not limited to, climate-related financial risks and emerging risks assessed over relevant time horizons) on a timely basis and to assess the adequacy of their capital, ~~and~~ their liquidity and the sustainability of their business models in relation to their risk profile and market and macroeconomic conditions. This extends to the development and review of contingency arrangements (including robust and credible recovery plans where warranted) that consider ~~take into account~~ the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.[29] ~~[19] For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 11) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.~~ [27] Reference documents: BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Stress testing principles, October 2018; BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; BCBS, Identification and management of step-in risk, October 2017; BCBS, Corporate Governance Principles for Banks, July 2015; BCBS, Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions, February 2013; BCBS, Principles for effective risk data aggregation and risk reporting, January 2013; BCBS, Principles for the supervision of financial conglomerates, September 2012. [28] To some extent, the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents. [29] ~~It should be noted that while~~ While in this and other principles, the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's board and senior management.

(1) The supervisor determines that banks have appropriate risk management strategies that have been approved by the banks' Boards and that the Boards set a suitable risk appetite to define the level of risk the banks are willing to assume or tolerate. The supervisor also determines that the Board ensures that: (a) a sound risk management culture is established throughout the bank; (b) policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite; (c) uncertainties attached to risk measurement are recognised; (d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff; and (e) senior management take the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.	(1) The supervisor determines that banks have appropriate risk management strategies that have been approved by the bank's board~~s~~, and that the board~~s~~ ~~set~~ establishes an effective ~~suitable~~ risk appetite statement and framework to define the level of risk the bank~~s are~~ is willing to assume or tolerate. The supervisor also determines that the board ensures that: (a) a sound risk ~~management~~ culture[30] is established throughout the bank, to promote the development and execution of its strategy; (b) policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite; (c) uncertainties attached to risk measurement are recognised; (d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff; and (e) senior managers ~~management~~ take the steps necessary to monitor and control all material risks (including climate-related financial risks and emerging risks) consistent with the approved strategies and risk appetite. [30] Risk culture refers to a bank's norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks. Risk culture influences the decisions of management and employees during their day-to-day activities and has an impact on the risks they assume.
(2) The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate: (a) to provide a comprehensive "bank-wide" view of risk across all material risk types; (b) for the risk profile and systemic importance of the bank; and (c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank's risk management process.	(2) The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks (including climate-related financial risks and emerging risks). The supervisor determines that these processes are adequate: (a) to provide a comprehensive “bank-wide” view of risk across all material risk types; (b) for the risk profile and systemic importance of the bank; ~~and~~ (c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank's risk management process~~.~~; and (d) to assess the impact of climate-related financial risks and emerging risks.[31] [31] Where relevant, scenario analysis should reflect climate-related financial risks and emerging risks. Scenario analysis should consider a time horizon which is appropriate to the risk being analysed.

(3) The supervisor determines that risk management strategies, policies, processes and limits are properly documented; regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and communicated within the bank. The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorisation by, the appropriate level of management and the bank's Board where necessary.	(3) The supervisor determines that risk management strategies, policies, processes and limits are properly documented and aligned with the bank's risk appetite statement and framework; regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and communicated within the bank. The supervisor determines that adequate procedures are in place for breaches of risk limits and significant deviations from established policies, ensuring they receive prompt attention and authorisation from the appropriate level of management and the bank's board (where necessary) and are adequately followed up with proportionate and timely remedial action ~~exceptions to established policies, processes and limits receive the prompt attention of, and authorisation by, the appropriate level of management and the bank's Board where necessary~~.
(4) The supervisor determines that the bank's Board and senior management obtain sufficient information on, and understand, the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the Board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.	(4) The supervisor determines that the bank's board and senior management obtain sufficient information on~~,~~ and understand, the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.
(5) The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy in relation to their risk appetite and risk profile. The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies.	(5) The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy and the sustainability of their business models in relation to their risk appetite, ~~and~~ risk profile[32] and forward-looking business strategies. The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies. [32] Banks should include climate-related financial risks assessed as material over relevant time horizons.
(6) Where banks use models to measure components of risk, the supervisor determines that the following conditions are met. In addition, the supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed. (a) Banks comply with supervisory standards on the use of models; (b) the banks' Boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and (c) banks perform regular and independent validation and testing of the models.	(6) Where banks use models to measure components of risk, the supervisor determines that the following conditions are met:~~. In addition, the supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.~~ (a) ~~B~~banks comply with supervisory standards on the use of models; (b) the banks' boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and (c) banks perform regular and independent validation and testing of the models. In addition, the supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.

(7) The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital and liquidity needs, and are provided on a timely basis to the bank's Board and senior management in a form suitable for their use.	(7) The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital and liquidity needs, and that they are provided on a timely basis to the bank's board and senior management in a form suitable for their use.
	(8) The supervisor determines that banks develop and maintain appropriate risk data aggregation and reporting capabilities commensurate with the risk profile and systemic importance of the bank. The supervisor also determines that the board and senior management review and approve the bank's risk data aggregation and risk reporting framework, and that they ensure that adequate resources are deployed to support these efforts.
(8) The supervisor determines that banks have adequate policies and processes to ensure that the banks' Boards and senior management understand the risks inherent in new products,[65] material modifications to existing products, and major management initiatives (such as changes in systems, processes, business model and major acquisitions). The supervisor determines that the Boards and senior management are able to monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their Board or a specific committee of the Board. [65] New products include those developed by the bank or by a third party and purchased or distributed by the bank.	(9) The supervisor determines that banks have adequate policies and processes to ensure that the banks' boards and senior management understand the risks inherent in new products,[33] material modifications to existing products, and major management initiatives (such as changes in systems, processes, business models and major acquisitions). The supervisor determines that the bank's ~~the~~ board~~s~~ and senior management ~~are able to~~ monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their board or a specific committee of the board. [33] New products include those developed by the bank or by a third party and purchased or distributed by the bank.
(9) The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' Boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the Board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function.	(10) The supervisor determines that banks have risk management functions covering all material risks (including climate-related financial risks and emerging risks) with sufficient resources, independence, authority and access to the banks' boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function.
(10) The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a Chief Risk Officer (CRO) or equivalent function. If the CRO of a bank is removed from his/her position for any reason, this should be done with the prior approval of the Board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.	(11) The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a chief risk officer (CRO) or equivalent function. If the CRO of a bank is removed from their~~his/her~~ position for any reason, this should be done with the prior approval of the board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.
(11) The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book and operational risk.	(12) The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book, ~~and~~ operational risk and large exposures.

(12) The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialise and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that take into account the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the adequacy of banks' contingency arrangements in the light of their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.	(13) The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialise and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that consider ~~take into account~~ the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the adequacy of banks' contingency arrangements ~~in the light of~~ given their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.
(13) The supervisor requires banks to have forward-looking stress testing programmes, commensurate with their risk profile and systemic importance, as an integral part of their risk management process. The supervisor regularly assesses a bank's stress testing programme and determines that it captures material sources of risk and adopts plausible adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing programme or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing programme: (a) promotes risk identification and control, on a bank-wide basis; (b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks; (c) benefits from the active involvement of the Board and senior management; and (d) is appropriately documented and regularly maintained and updated.	(14) The supervisor requires banks to have forward-looking stress-testing programmes covering all material risks commensurate with their risk profile and systemic importance~~,~~ as an integral part of their risk management process. At a minimum, banks' stress-testing programmes cover credit risk, market risk, interest rate risk in the banking book, liquidity risk, country and transfer risk, operational risk and significant risk concentrations. The supervisor regularly assesses a bank's stress-testing programme and determines that it captures all material sources of risk and adopts plausible adverse scenarios.[34] The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. The supervisor requires corrective action if material deficiencies are identified in a bank's stress-testing programme or if the results of stress tests are not adequately considered ~~taken into consideration~~ in the bank's decision-making process. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress-testing programme: (a) promotes risk identification and control~~,~~ on a bank-wide basis; (b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks; (c) benefits from the active involvement of the board and senior management; and (d) is appropriately documented and regularly maintained and updated. [34] Where relevant, stress testing should reflect and incorporate climate-related financial risks and emerging risks assessed as material over relevant time horizons.
(14) The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.	(15) The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.

Additional criterion: (1) The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent Principles, such as reputational and strategic risks.	Additional criterion: (1) The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent principles, such as reputational, step-in and strategic risks.
Principle 16 Capital adequacy:[22] the supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards. [22] The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II and/or Basel III. The Committee does not consider implementation of the Basel-based framework a prerequisite for compliance with the Core Principles, and compliance with one of the regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.	**Principle 16 Capital adequacy:**[35] The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken ~~by,~~ and presented by~~,~~ a bank in the context of the markets and macroeconomic conditions in which it operates.[36] The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less stringent than the applicable Basel standards. [35] Reference documents: [SCO10], [SCO30], [CAP10], [CAP30], [CAP50], [CAP99], [RBC20], [RBC30], [RBC40], [LEV10], [LEV20], [LEV30], [SRP10], [SRP20]. [36] ~~The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II and/or Basel III. The Committee does not consider i~~Implementation of the ~~Basel-based~~ Basel Framework is not a prerequisite for compliance with the Core Principles. ~~and compliance~~ Compliance with ~~one of~~ the Basel Framework capital adequacy regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.
(1) Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.	(1) Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds ~~by~~ with reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.
(2) At least for internationally active banks,[66] the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards. [66] The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III capital adequacy frameworks would apply such ratios on a fully consolidated basis to all internationally active banks and their holding companies; in addition, supervisors must test that banks are adequately capitalised on a stand-alone basis.	(2) At least for internationally active banks,[37] the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards. [37] ~~The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III~~ Capital adequacy requirements for internationally active banks ~~frameworks would apply such ratios~~ should be applied on a ~~fully~~ consolidated basis, including any holding company that is the parent of a banking group. These requirements will apply to all internationally active banks at every tier within a banking group, on a fully consolidated basis. ~~to all internationally active banks and their holding companies; in addition,~~ Supervisors must also test that banks are adequately capitalised on a ~~stand-alone~~ solo basis.

(3) The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (eg securitisation transactions[67]) entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements. [67] Reference documents: Enhancements to the Basel II framework, July 2009 and: International convergence of capital measurement and capital standards: a revised framework, comprehensive version, June 2006.	(3) The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (eg securitisation transactions~~[67]~~) entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements. ~~[67] Reference documents: Enhancements to the Basel II framework, July 2009 and: International convergence of capital measurement and capital standards: a revised framework, comprehensive version, June 2006.~~
(4) The prescribed capital requirements reflect the risk profile and systemic importance of banks[68] in the context of the markets and macroeconomic conditions in which they operate and constrain the build-up of leverage in banks and the banking sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements. [68] In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on (a) the potential loss absorbency of the instruments included in the bank's capital base, (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures, (c) the adequacy of provisions and reserves to cover loss expected on its exposures and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.	(4) The prescribed capital requirements reflect the risk profile and systemic importance of banks~~[68]~~ in the context of the markets and macroeconomic conditions in which they operate, ~~and~~ constrain the build-up of leverage in banks and the banking sector, and reduce the risk of contagion. In assessing the adequacy of a bank's capital levels given its risk profile, the supervisor focuses, among other things, on: (a) the potential loss absorbency of the instruments included in the bank's capital base; (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures; (c) the adequacy of provisions and reserves to cover expected losses; and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support its risk profile. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements. ~~[68] In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on (a) the potential loss absorbency of the instruments included in the bank's capital base, (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures, (c) the adequacy of provisions and reserves to cover loss expected on its exposures and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.~~

(5) The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use: (a) such assessments adhere to rigorous qualifying standards; (b) any cessation of such use, or any material modification of the bank's processes and models for producing such internal assessments, are subject to the approval of the supervisor; (c) the supervisor has the capacity to evaluate a bank's internal assessment process in order to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken; (d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so; and (e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.	(5) The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use: (a) such assessments adhere to rigorous qualifying standards; (b) any cessation of such use~~,~~ or any material modification of the bank's processes and models for producing such internal assessments~~,~~ are subject to the approval of the supervisor; (c) the supervisor has the capacity to evaluate a bank's internal assessment process ~~in order~~ to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken; (d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so; and (e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.
(6) The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).[69] The supervisor has the power to require banks: (a) to set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect; and (b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank. [69] "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyses and reverse stress testing.	(6) The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).~~[69]~~ The supervisor has the power to require banks: (a) to set capital levels and manage available capital and planned capital expenditures in anticipation of possible business cycle effects, ~~changes in~~ market conditions and changes in factors specific to the bank that could have an adverse effect; and (b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank. ~~[69] "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyses and reverse stress testing.~~
	(7) The supervisor has the power to impose a simple, transparent, non-risk-based measure that captures all on- and off-balance sheet exposures to supplement risk-based capital requirements to constrain the build-up of leverage in banks and in the banking sector.
Additional criteria: (1) For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.	Additional criteria: (1) For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.
(2) The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks.[70] [70] Please refer to Principle 12, Essential Criterion 7 [BCP01.90].	(2) The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks.[38] [38] ~~Please r~~Refer to Principle 12, essential criterion 7 [BCP40.28].

	(3) Laws or regulations permit the supervisor or relevant authorities to require banks to maintain additional capital (which may include sectoral capital requirements) in a form that can be released when system-wide risk crystallises or dissipates.
Principle 17 Credit risk: the supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk[24] (including counterparty credit risk[25]) on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios. [24] Credit risk may result from the following: on-balance sheet and off-balance sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities. [25] Counterparty credit risk includes credit risk exposures arising from derivative contracts and other financial instruments.	**Principle 17 Credit risk:**[39] The supervisor determines that banks have an adequate credit risk management process that considers ~~takes into account~~ their risk appetite, risk profile, ~~and~~ market conditions, ~~and~~ macroeconomic factors ~~conditions~~ and forward-looking information. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk[40] (including counterparty credit risk[41]) on a timely basis. The full credit life cycle is covered, including credit underwriting, credit evaluation~~,~~ and the ongoing management of the bank's loan and investment portfolios. [39] Reference documents: BCBS, Guidance on credit risk and accounting for expected credit losses, December 2015; FSB, Principles for Sound Residential Mortgage Underwriting Practices, April 2012; [CRE20], [CRE40], [CRE45], [CRE50], [CRE51], [CRE54], [MGN10], [MGN20]. [40] Credit risk may result from ~~the following~~: on-balance sheet and off-balance sheet exposures, including loans and advances; investments; inter-bank lending; derivative transactions; securities financing transactions; and trading activities. [41] Transactions that give rise to ~~C~~counterparty credit risk include: OTC derivatives, exchange-traded derivatives, long settlement transactions and securities financing transactions that are bilaterally or centrally cleared ~~credit risk exposures arising from derivative contracts and other financial instruments~~. Counterparty credit risk may result from (but is not limited to) transactions with banks, non-financial corporates and NBFIs.
(1) Laws, regulations or the supervisor require banks to have appropriate credit risk management processes that provide a comprehensive bank-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.	(1) Laws, regulations or the supervisor require banks to have ~~appropriate~~ sound credit risk management processes that provide a comprehensive bank-wide view of all credit risk exposures, including a robust methodology for the early identification and appropriate measurement of credit losses. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, that they consider ~~take into account~~ current and forward-looking market and macroeconomic factors, ~~conditions~~ and that they result in prudent standards of ~~credit~~ underwriting, evaluation, administration, ~~and~~ monitoring, measurement and control of credit risk.

(2) The supervisor determines that a bank's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming,[71] identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes. [71] "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.	(2) The supervisor determines that a bank's board approves~~,~~ and regularly reviews~~,~~ the credit risk management strategy and significant policies and processes for ~~assuming,[71]~~ identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk ~~and associated potential future exposure~~) and that these are consistent with the risk appetite set by the board. The supervisor also determines that the board oversees ~~senior~~ management in a way that ensures that these ~~implements the credit risk strategy approved by the Board and develops the aforementioned~~ policies and processes are implemented effectively and fully integrated into the bank's overall risk management process. ~~[71] "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.~~

(3) The supervisor requires, and regularly determines, that such policies and processes establish an appropriate and properly controlled credit risk environment, including: (a) a well documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments; (b) well defined criteria and policies and processes for approving new exposures (including prudent underwriting standards) as well as for renewing and refinancing existing exposures, and identifying the appropriate approval authority for the size and complexity of the exposures; (c) effective credit administration policies and processes, including continued analysis of a borrower's ability and willingness to repay under the terms of the debt (including review of the performance of underlying assets in the case of securitisation exposures); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system; (d) effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank's Board and senior management on an ongoing basis; (e) prudent and appropriate credit limits, consistent with the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff; (f) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board where necessary; and (g) effective controls (including in respect of the quality, reliability and relevancy of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits.	(3) The supervisor requires~~,~~ and regularly determines~~,~~ that such policies and processes establish an appropriate and properly controlled credit risk environment, including: (a) a well documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments; (b) well defined criteria and policies and processes for: (i) approving new exposures (including prudent underwriting standards), and ensuring a thorough understanding of the risk profile and characteristics of the borrowers (and in the case of securitisation exposures all features of securitisation transactions[42]) that would materially impact the performance of these exposures; ~~as well as for~~ (ii) renewing and refinancing existing exposures; and (iii) identifying the appropriate approval authority for the size and complexity of the exposures; (c) effective credit administration policies and processes, including: continued analysis of a borrower's ability and willingness to ~~repay under the terms of the debt~~ make all payments associated with the contractual arrangements (including reviews of the performance of underlying assets, where applicable, eg for ~~in the case of~~ securitisation exposures or project finance); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate exposure grading or classification system; (d) effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank's board and senior management on an ongoing basis; (e) prudent and appropriate credit limits~~,~~ consistent with the bank's risk appetite, risk profile and capital strength, which are understood by~~,~~ and regularly communicated to~~,~~ relevant staff; (f) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or board where necessary; and (g) effective controls (including in respect of the quality, reliability and relevance of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits. [42] Securitisation includes both traditional and synthetic securitisations (or similar structures that contain features common to both). Where appropriate, supervisors should provide guidance about whether a given transaction should be considered a securitisation.
(4) The supervisor determines that banks have policies and processes to monitor the total indebtedness of entities to which they extend credit and any risk factors that may result in default including significant unhedged foreign exchange risk.	(4) The supervisor determines that banks have policies and processes to monitor the total indebtedness of obligors ~~entities~~ to which they extend credit and any risk factors that may result in default, including significant unhedged foreign exchange risk.
(5) The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis.	(5) The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis.

(6) The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The same applies to credit risk exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities.	(6) The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital ~~are to~~ must be decided by the bank's board or senior management. The same requirement applies to credit risk exposures that are especially risky or are otherwise not aligned ~~in line~~ with the bank's core business ~~mainstream of the bank's~~ activities.
(7) The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk.	(7) The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk.
(8) The supervisor requires banks to include their credit risk exposures into their stress testing programmes for risk management purposes.	~~(8) The supervisor requires banks to include their credit risk exposures into their stress testing programmes for risk management purposes.~~
Principle 18 Problem assets, provisions and reserves: The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.[27] [27] Reserves for the purposes of this Principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).	**Principle 18 Problem exposures ~~assets~~, provisions and reserves:**[43] The supervisor determines that banks have adequate policies and processes for the early identification and management of problem exposures ~~assets,~~[44] and the maintenance of adequate provisions[45] and reserves.[46] [43] Reference documents: BCBS, Prudential treatment of problem assets - definitions of non-performing exposures and forbearance, April 2017; BCBS, Guidance on credit risk and accounting for expected credit losses, December 2015. [44] For banks' internal risk management purposes, a problem exposure is an exposure for which there is reason to believe that all amounts due, including the principal and interest, may not be collected in accordance with the contractual terms of the agreement with the counterparty. [45] Principle 18 covers all provisioning approaches (eg incurred loss models, expected credit loss models, calendar provisioning) that are used for prudential purposes. In some jurisdictions, cumulative provisions are referred to as loss allowances. [46] Reserves for the purposes of this principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).
(1) Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the supervisor require regular review by banks of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.	(1) Laws, regulations or the supervisor require banks to formulate policies, ~~and~~ processes and methodologies for grading, classifying and monitoring all credit exposures (including off-balance sheet and forborne exposures[47]) and identifying and managing problem exposures ~~assets~~. In addition, laws, regulations or the supervisor require regular reviews by banks of their credit exposures ~~problem assets~~ (at an individual level or at a portfolio level for credit exposures ~~assets~~ with homogeneous characteristics) to ensure appropriate ~~and asset~~ exposure classification, detection of deteriorating exposures and early identification of problem exposures ~~provisioning and write-offs~~. [47] Forborne exposure is an exposure for which a bank's counterparty is experiencing financial difficulty in meeting its financial commitments and the bank grants a concession that it would not otherwise consider.

(2) The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes.	(2) Laws, regulations or the supervisor require banks to formulate policies, processes and methodologies for consistently establishing provisions and ensuring appropriate and robust provisioning levels.[48] In addition, laws, regulations or the supervisor require banks to formulate policies and processes for writing off problem exposures where recovery is unlikely or where the exposures have very little recovery value. ~~The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes.~~ [48] Provisions are not limited to problem exposures. Depending on the relevant jurisdiction's accounting and prudential frameworks, provisions may be required for a wider range of exposures (eg all exposures, including performing exposures, under expected credit loss frameworks).
(3) The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures.[72] [72] It is recognised that there are two different types of off-balance-sheet exposures: those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning) and those that cannot be unilaterally cancelled.	~~(3) The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures.[72]~~ ~~[72] It is recognised that there are two different types of off-balance-sheet exposures: those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning) and those that cannot be unilaterally cancelled.~~
	(3) The supervisor determines that the bank's board approves and regularly reviews significant policies for classifying exposures, determining provisions and managing problem exposures and write-offs. The supervisor also determines that the board oversees management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the bank's overall risk management process.
(4) The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions.	(4) The supervisor determines that banks have adequate and appropriate policies, ~~and~~ processes, methodologies and organisational resources for establishing provisions and write-offs. The supervisor determines that policies, processes and methodologies for the measurement of provisions are appropriate to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations and, where relevant, include appropriate expectations about future credit losses based on reasonable and supportable information. The supervisor determines that banks' credit loss provisions and write-off methodologies and levels are subject to an effective review and validation process conducted by a function independent of the relevant risk-taking function ~~taking into account market and macroeconomic conditions~~.

(5) The supervisor determines that banks have appropriate policies and processes, and organisational resources for the early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (eg 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (eg rescheduling, refinancing or reclassification of loans).	(5) The supervisor determines that banks have adequate and appropriate policies, ~~and~~ processes~~,~~ and organisational resources for: (a) reviewing and classifying exposures; (b) the early identification of deteriorating exposures ~~assets;~~ (c) ~~for~~ ongoing oversight of problem exposures ~~assets~~; and (d) ~~for~~ collecting ~~on~~ past due obligations. ~~For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (eg 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (eg rescheduling, refinancing or reclassification of loans).~~
(6) The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.	(6) The supervisor obtains information on a regular basis~~,~~ and in relevant detail~~,~~ or has full access to information concerning the classification of exposures ~~assets~~, collateral and other risk mitigants, provisions~~ing~~ and write-offs. The supervisor requires banks to have adequate documentation to support their classification and provisioning ~~levels~~.
(7) The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (eg if the supervisor considers existing or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.	(7) The supervisor assesses whether ~~the~~ banks' classification of ~~the~~ exposures ~~assets~~ and ~~the~~ determination of provisioning levels is ~~adequate~~ appropriate for prudential purposes. The supervisor evaluates banks' treatment of exposures with a view to identifying any material circumvention of the classification and provisioning standards (eg forbearance). If policies, processes or methodologies are inadequate, or if exposure ~~asset~~ classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (eg if the supervisor considers existing or anticipated deterioration in exposure ~~asset~~ quality to be of concern or if the provisions do not fully reflect losses expected to be ~~incurred~~ realised), the supervisor has the power to take appropriate action, for example through requiring the bank to: (a) revise its policies, processes or methodologies for classification and provisioning; (b) adjust its classifications of exposures ~~individual assets~~; (c) increase its levels of provisioning, reserves or capital; or ~~and~~ (d) if necessary, impose other remedial measures. Assessments supporting the supervisor's opinion in relation to this and other essential criteria under CP18 may be conducted by external experts, with the supervisor reviewing the work of the external experts, including to determine the adequacy of the bank's policies, processes and methodologies for classifying exposures and determining provisions.
(8) The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realisable value, taking into account prevailing market conditions.	(8) The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realisable value, ~~taking into account~~ considering prevailing market conditions and the time required for realisation.

(9) Laws, regulations or the supervisor establish criteria for assets to be: (a) identified as a problem asset (eg a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement); and (b) reclassified as performing (eg a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected).	(9) Laws, regulations or the supervisor establish criteria for an exposure ~~assets~~ to be: (a) identified as a problem exposure~~asset~~; ~~and~~ (b) identified as non-performing (exposures where full repayment is unlikely or are 90 days past due for a material amount, or defaulted exposures under either the Basel Framework or the applicable prudential regulation, or credit-impaired exposures according to the applicable accounting framework); (c) reclassified as performing (the counterparty does not have any material exposure more than 90 days past due, ~~eg a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current,~~ repayments have been made ~~in a timely manner~~ when due over a continuous repayment period, the counterparty's situation has improved so that full repayment of exposure is likely ~~and continued collection,~~ in accordance with the contractual terms, and the exposure is no longer defaulted or impaired~~is expected~~)~~.~~; and (d) classified as a forborne exposure.
(10) The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets. The information includes, at a minimum, summary results of the latest asset review process, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred.	(10) The supervisor determines that the bank's board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of exposures ~~assets~~, the level of provisions and reserves, and major problem exposures ~~assets~~. The information includes, at a minimum, summary results of the latest credit exposure ~~asset~~ review process, comparative trends in the overall quality of problem exposures ~~assets~~, and measurements of any existing or anticipated deterioration in exposure ~~asset~~ quality and losses expected to be realised ~~incurred~~.
(11) The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.	(11) The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.
(12) The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment.	(12) The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment.

Principle 19 Concentration risk and large exposure limits: the supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.[28] [28] Connected counterparties may include natural persons as well as a group of companies related financially or by common ownership, management or any combination thereof.	**Principle 19 Concentration risk and large exposure limits:**[49] The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.[50] At least for internationally active banks, large exposure requirements are not less stringent than the applicable Basel standard. [49] Reference documents: Joint Forum, Cross-sectoral review of group-wide identification and management of risk concentrations, April 2008; BCBS, Principles for the management of credit risk, September 2000; [LEX10], [LEX20], [LEX30], [LEX40]. [50] Connected counterparties may include natural persons as well as legal persons. Two or more natural or legal persons shall be deemed a group of connected counterparties if at least one of the following criteria is satisfied: (a) Control relationship: one of the counterparties, directly or indirectly, has control over the other(s). (b) Economic interdependence: if one of the counterparties were to experience financial problems, the other(s), as a result, would also be likely to encounter financial difficulties.
(1) Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk.[73] Exposures arising from off-balance sheet as well as on-balance sheet items and from contingent liabilities are captured. [73] This includes credit concentrations through exposure to: single counterparties and groups of connected counterparties both direct and indirect (such as through exposure to collateral or to credit protection provided by a single counterparty), counterparties in the same industry, economic sector or geographic region and counterparties whose financial performance is dependent on the same activity or commodity as well as off-balance sheet exposures (including guarantees and other commitments) and also market and other risk concentrations where a bank is overly exposed to particular asset classes, products, collateral, or currencies.	(1) Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk.[51] Exposures (including counterparty credit risk exposure) arising from off-balance sheet as well as on-balance sheet items included in both the banking book and trading book are captured. [51] Concentration risk may result from credit, market and other risk where a bank is overly exposed to particular asset classes, products, collateral, currencies or funding sources. Credit concentrations include exposures to: single counterparties (including collateral credit protection and other commitments provided); groups of connected counterparties; counterparties in the same industry, economic sector or geographic region; and counterparties whose financial performance is dependent on the same activity or commodity.

(2) The supervisor determines that a bank's information systems identify and aggregate on a timely basis, and facilitate active management of, exposures creating risk concentrations and large exposure[74] to single counterparties or groups of connected counterparties. [74] The measure of credit exposure, in the context of large exposures to single counterparties and groups of connected counterparties, should reflect the maximum possible loss from their failure (ie it should encompass actual claims and potential claims as well as contingent liabilities). The risk weighting concept adopted in the Basel capital standards should not be used in measuring credit exposure for this purpose as the relevant risk weights were devised as a measure of credit risk on a basket basis and their use for measuring credit concentrations could significantly underestimate potential losses (see Measuring and controlling large credit exposures, January 1991).	(2) The supervisor determines that a bank's information systems identify and aggregate on a timely basis~~, and facilitate active management of,~~ exposures creating risk concentrations and large exposure~~[74]~~ to single counterparties or groups of connected counterparties and facilitate active management of such exposures.[52] [52] The measure of credit exposure~~, in the context of~~ for large exposures ~~to single counterparties and groups of connected counterparties,~~ should reflect the maximum possible loss from ~~their~~ counterparty failure (ie it should encompass actual ~~claims~~ and potential ~~claims~~ exposures as well as contingent liabilities). The risk weighting concept adopted in the Basel Framework ~~capital standards~~ should not be used in measuring credit exposure for this purpose, as ~~the relevant risk weights were devised as a measure of credit risk on a basket basis and their~~ its use for measuring credit concentrations could significantly underestimate potential losses ~~(see Measuring and controlling large credit exposures, January 1991)~~.
(3) The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's Board.	(3) The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by~~,~~ and regularly communicated to~~,~~ relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's board.
(4) The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed.	(4) The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed.
(5) In respect of credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a "group of connected counterparties" to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case by case basis.	(5) ~~In respect of~~ For credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a ~~"~~group of connected counterparties~~"~~ to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case by case basis.
(6) Laws, regulations or the supervisor set prudent and appropriate[75] requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on-balance sheet as well as off-balance sheet. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis. [75] Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. These are described in [LEX].	(6) Laws, regulations or the supervisor set prudent and appropriate~~[75]~~ requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), whether on-balance sheet ~~as well as~~ or off-balance sheet. The supervisor also determines that banks assess connectedness between counterparties through control relationships and economic interdependence based on objective and qualitative criteria. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis. ~~[75] Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. These are described in [LEX].~~

(7) The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programmes for risk management purposes.	~~(7) The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programmes for risk management purposes.~~
Additional criterion: (1) In respect of credit exposure to single counterparties or groups of connected counterparties, banks are required to adhere to the limits below. Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialised banks. (a) ten per cent or more of a bank's capital is defined as a large exposure; and (b) twenty-five per cent of a bank's capital is the limit for an individual large exposure to a private sector non-bank counterparty or a group of connected counterparties.	Additional criterion: (1) In respect of credit exposure to single counterparties or groups of connected counterparties, non-internationally active banks are required to adhere to the limits below: ~~Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialised banks.~~ (a) 10% ~~ten per cent~~ or more of a bank's Tier 1 capital is defined as a large exposure; and (b) 25% ~~twenty-five per cent~~ of a bank's Tier 1 capital is the limit for an individual large exposure to a private sector non-bank counterparty or a group of connected counterparties. Minor deviations from these limits may be acceptable, especially if they are explicitly temporary or related to very small or specialised banks.

Principle 20 Transactions with related parties: in order to prevent abuses arising in transactions with related parties[29] and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties on an arm's length basis;[30] to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes. [29] Related parties can include, among other things, the bank's subsidiaries, affiliates, and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank, the bank's major shareholders, Board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies. [30] Related party transactions include on-balance sheet and off-balance sheet credit exposures and claims, as well as, dealings such as service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowings, and write-offs. The term transaction should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.	**Principle 20 Transactions with related parties:**[53] ~~in order to~~ To prevent abuses arising in transactions with related parties[54] and to address the risk of conflicts of interest, the supervisor requires banks to: enter into any transactions with related parties on an arm's length basis;[55] ~~to~~ monitor these transactions; ~~to~~ take appropriate steps to control or mitigate the risks; and ~~to~~ write off exposures to related parties in accordance with standard policies and processes. [53] Reference document: BCBS, Principles for the management of credit risk, September 2000. [54] Related parties comprise ~~can include~~, among others ~~things~~, the bank's subsidiaries, affiliates~~,~~ and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank; the bank's major shareholders up to the ultimate beneficial owner; and board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies. It should also include parties that can exert significant influence on the board or senior management. Banks' exposure to banking entities within the banking group or wider group arising from transactions such as liquidity facilities, sale/purchase of foreign currencies or securities, letters of credit and guarantees may warrant a separate approach, particularly if the supervisor considers this to be appropriate to ensure sound group-wide risk management. [55] Related party transactions include on-balance sheet and off-balance sheet credit exposures ~~and claims, as well as~~; dealings such as service contracts, asset purchases and sales~~,~~; construction contracts~~,~~; lease agreements~~,~~; derivative transactions~~,~~; borrowings~~,~~; and write-offs. The term "transaction" should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.
(1) Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of "related parties". This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case by case basis.	(1) Laws, ~~or~~ regulations ~~provide,~~ or the supervisor set out ~~has the power to prescribe~~, a comprehensive definition of "related parties", consistent with footnote. ~~This considers the parties identified in the footnote to the Principle.~~ The supervisor may exercise discretion in applying this definition on a case by case basis.
(2) Laws, or regulations or the supervisor require that transactions with related parties are not undertaken on more favourable terms (eg in credit assessment, tenor, interest rates, fees, amortisation schedules, requirement for collateral) than corresponding transactions with non-related counterparties.[76] [76] An exception may be appropriate for beneficial terms that are part of overall remuneration packages (eg staff receiving credit at favourable rates).	(2) Laws, ~~or~~ regulations or the supervisor require that transactions with related parties are not undertaken on more favourable terms (eg in credit assessment, tenor, interest rates, fees, amortisation schedules, requirements for collateral) than corresponding transactions with non-related counterparties.[56] [56] An exception may be appropriate for beneficial terms that are part of overall remuneration packages (eg staff receiving credit at favourable rates).

(3) The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank's Board. The supervisor requires that Board members with conflicts of interest are excluded from the approval process of granting and managing related party transactions.	(3) The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank's board. The supervisor requires that board members with conflicts of interest are excluded from the approval process ~~of~~ for granting and managing related party transactions.
(4) The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction and/or persons related to such a person from being part of the process of granting and managing the transaction.	(4) The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction (and/or persons related to such a person) or who otherwise have a conflict of interest from being part of the process of granting and managing the related party transaction.
(5) Laws or regulations set, or the supervisor has the power to set on a general or case by case basis, limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralisation of such exposures. When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.	(5) Laws, ~~or~~ regulations ~~set,~~ or the supervisor ~~has the power to~~ set on a general or case by case basis~~,~~ adequate limits for exposures to related parties~~,~~ or require such exposures to be collateralised or ~~to~~ deducted ~~such exposures~~ from capital ~~when assessing capital adequacy, or to require collateralisation of such exposures~~. ~~When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.~~
(6) The supervisor determines that banks have policies and processes to identify individual exposures to and transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent credit review or audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the Board, for timely action. The supervisor also determines that senior management monitors related party transactions on an ongoing basis, and that the Board also provides oversight of these transactions.	(6) The supervisor determines that banks have policies and processes to: (a) identify individual exposures to and transactions with related parties as well as the total amount of exposures; and (b) ~~to~~ monitor and report on them through an independent credit review or audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the board, for timely action. The supervisor also determines that senior management monitors related party transactions on an ongoing basis, and that the board also provides oversight of these transactions.
(7) The supervisor obtains and reviews information on aggregate exposures to related parties.	(7) The supervisor obtains and regularly reviews information on aggregate exposures to related parties. Supervisors require banks to report (or the supervisor acquires through other means) individual related party transactions that are material (eg those exceeding a specified amount or a percentage of the bank's Tier 1 Capital).

Principle 21 Country and transfer risk: the supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk[31] and transfer risk[32] in their international lending and investment activities on a timely basis. [31] Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporates, banks or governments are covered. [32] Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. (Reference document: IMF paper on External Debt Statistics – Guide for compilers and users, 2003.)	**Principle 21 Country and transfer risk:**[57] The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk[58] and transfer risk[59] in their international lending and investment activities on a timely basis. [57] Reference documents: IMF, External Debt Statistics – Guide for compilers and users, 2003; BCBS, Management of banks' international lending: country risk analysis and country exposure measurement and control, March 1982. [58] Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity ~~whether to/with~~ involving individuals, corporates, banks or governments are covered. [59] Transfer risk is the risk that a borrower will not be able to convert local currency into a foreign currency ~~exchange~~ and so will be unable to make debt service payments in a foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. ~~(Reference document: IMF paper on External Debt Statistics – Guide for compilers and users, 2003.)~~
(1) The supervisor determines that a bank's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, take into account market and macroeconomic conditions and provide a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures.	(1) The supervisor determines that a bank's policies and processes adequately consider ~~give due regard to~~ the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, consider ~~take into account~~ market and macroeconomic conditions, and provide a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures.
(2) The supervisor determines that banks' strategies, policies and processes for the management of country and transfer risks have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.	(2) The supervisor determines that banks' strategies, policies and processes for the management of country and transfer risks have been approved by the banks' boards. The supervisor also determines ~~and~~ that the boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.
(3) The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.	(3) The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.

(4) There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices that are all acceptable as long as they lead to risk-based results. These include: (a) The supervisor (or some other official authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country taking into account prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate. (b) The supervisor (or some other official authority) regularly sets percentage ranges for each country, taking into account prevailing conditions and the banks may decide, within these ranges, which provisioning to apply for the individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate. (c) The bank itself (or some other body such as the national bankers association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.	(4) There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk~~. There are different international practices that are all acceptable as long as they lead to risk-based results. These include~~, which may include the following: (a) The supervisor (or relevant ~~some other official~~ authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country, considering ~~taking into account~~ prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate. (b) The supervisor (or relevant ~~some other official~~ authority) regularly sets percentage ranges for each country, considering ~~taking into account~~ prevailing conditions, and the banks may decide, within these ranges, which provisioning to apply for their individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate. (c) The bank itself (or another ~~some other~~ body, such as the national bankers association) sets percentages or guidelines or even decides ~~for each individual loan~~ on the appropriate provisioning for individual loans. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.
(5) The supervisor requires banks to include appropriate scenarios into their stress testing programmes to reflect country and transfer risk analysis for risk management purposes.	~~(5) The supervisor requires banks to include appropriate scenarios into their stress testing programmes to reflect country and transfer risk analysis for risk management purposes.~~
(6) The supervisor regularly obtains and reviews sufficient information on a timely basis on the country risk and transfer risk of banks. The supervisor also has the power to obtain additional information, as needed (eg in crisis situations).	(5) The supervisor regularly obtains and reviews, sufficient and timely information ~~on a timely basis~~ on the country risk and transfer risk of banks. The supervisor ~~also~~ has the power to obtain additional information, as needed (eg in crisis situations).
Principle 22 Market risks: the supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.	**Principle 22 Market risks:**[60] The supervisor determines that banks have an adequate market risk management process that considers ~~takes into account~~ their risk appetite, risk profile, ~~and~~ market and macroeconomic conditions, and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis. [60] Reference documents: [MAR10], [MAR11], [MAR12], [MAR20], [MAR21], [MAR22], [MAR23], [MAR30], [MAR31], [MAR32], [MAR33], [MAR40], [MAR50], [MAR99].
(1) Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; take into account market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and clearly articulate the roles and responsibilities for identification, measuring, monitoring and control of market risk.	(1) Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; that they consider ~~take into account~~ market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and that they clearly articulate the roles and responsibilities for identifying~~ication~~, measuring, monitoring, reporting and controlling ~~of~~ market risk.

(2) The supervisor determines that banks' strategies, policies and processes for the management of market risk have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.	(2) The supervisor determines that a bank's~~' strategies~~ strategy, policies and processes for the management of market risk have been approved by the bank's~~'~~ board~~s~~. The supervisor also determines ~~and~~ that the board~~s~~ oversees management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.
(3) The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including: (a) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's Board and senior management; (b) appropriate market risk limits consistent with the bank's risk appetite, risk profile and capital strength, and with the management's ability to manage market risk and which are understood by, and regularly communicated to, relevant staff; (c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board, where necessary; (d) effective controls around the use of models to identify and measure market risk, and set limits; and (e) sound policies and processes for allocation of exposures to the trading book.	(3) The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including: (a) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's board and senior management; (b) appropriate market risk limits, which are consistent with the bank's risk appetite, risk profile, ~~and~~ capital strength~~,~~ and ~~with the~~ management's ability to manage market risk and which are understood by~~,~~ and regularly communicated to~~,~~ relevant staff; (c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or board, where necessary; (d) effective controls around the use of models to identify and measure market risk, and set limits; and (e) sound policies and processes for the allocation of exposures to the trading book.
(4) The supervisor determines that there are systems and controls to ensure that banks' marked-to-market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices, and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modelling for the purposes of valuation, the bank is required to ensure that the model is validated by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid, and stale positions.	(4) The supervisor determines that there are systems and controls to ensure that banks' marked ~~-~~to ~~-~~market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices~~,~~ and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modelling for the purposes of valuation, the bank is required to ensure that the model is validated regularly by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid~~,~~ and stale positions.
(5) The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities.	(5) The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities.
(6) The supervisor requires banks to include market risk exposure into their stress testing programmes for risk management purposes.	~~(6) The supervisor requires banks to include market risk exposure into their stress testing programmes for risk management purposes.~~

Principle 23 Interest rate risk in the banking book: the supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk in the banking book on a timely basis.[33] These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions. [33] Wherever "interest rate risk" is used in this Principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.	**Principle 23 Interest rate risk in the banking book:**[61] The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk in the banking book on a timely basis.[62] These systems consider ~~take into account~~ the bank's risk appetite, risk profile and market and macroeconomic conditions. [61] Reference document: [SRP31]. [62] Wherever "interest rate risk" is used in this principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.
(1) Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the bank's changing risk profile and market developments.	(1) Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, that they consider ~~take into account~~ market and macroeconomic conditions, and that they are regularly reviewed and appropriately adjusted, where necessary, in line with the bank's changing risk profile and market developments.
(2) The supervisor determines that a bank's strategy, policies and processes for the management of interest rate risk have been approved, and are regularly reviewed, by the bank's Board. The supervisor also determines that senior management ensures that the strategy, policies and processes are developed and implemented effectively.	(2) The supervisor determines that a bank's strategy, policies and processes for the management of interest rate risk have been approved~~,~~ and are regularly reviewed~~,~~ by the bank's board. The supervisor also determines that the board oversees ~~senior~~ management in a way that ensures that these ~~strategy,~~ policies and processes are ~~developed and~~ implemented effectively and fully integrated into the bank's overall risk management process.

(3) The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment including: (a) comprehensive and appropriate interest rate risk measurement systems; (b) regular review, and independent (internal or external) validation, of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions); (c) appropriate limits, approved by the banks' Boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff; (d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or Boards where necessary; and (e) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' Boards and senior management.	(3) The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment, including: (a) comprehensive and appropriate interest rate risk measurement systems; (b) a regular review~~,~~ and independent (internal or external) validation~~,~~ of any models used by the functions tasked with managing interest rate risk (including a review of key model assumptions, eg regarding optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, in which the bank or its customer can alter the level and timing of their cash flows); (c) appropriate limits, approved by the banks' boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength~~,~~ and that are understood by~~,~~ and regularly communicated to~~,~~ relevant staff; (d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or boards where necessary; and (e) effective information systems for the accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' boards and senior management.
(4) The supervisor requires banks to include appropriate scenarios into their stress testing programmes to measure their vulnerability to loss under adverse interest rate movements.	~~(4) The supervisor requires banks to include appropriate scenarios into their stress testing programmes to measure their vulnerability to loss under adverse interest rate movements.~~
	(4) The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to both economic value and earnings, ~~including~~ using ~~a~~ standardised interest rate shocks on the banking book.
	(5) The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.
Additional criteria: (1) The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to economic value, including using a standardised interest rate shock on the banking book.	~~Additional criteria:~~ ~~(1) The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to both economic value and earnings, including using a standardised interest rate shocks on the banking book.~~
(2) The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.	~~(2) The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.~~

Principle 24 Liquidity risk: the supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.	**Principle 24 Liquidity risk:**[63] The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) ~~for banks~~ that reflect the liquidity needs of ~~the~~ banks. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy considers~~takes into account~~ the bank's risk profile, ~~as well as~~ market and macroeconomic conditions, and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity (including funding) requirements are not lower than the applicable Basel standards. [63] Reference documents: BCBS, Principles for sound liquidity risk management and supervision, September 2008; [LCR10], [LCR20], [LCR30], [LCR31], [LCR40], [LCR99], [NSF10], [NSF20], [NSF30], [NSF99].
(1) Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements including thresholds by reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than, and the supervisor uses a range of liquidity monitoring tools no less extensive than, those prescribed in the applicable Basel standards.	(1) Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements, including thresholds ~~by~~ with reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than those prescribed in the applicable Basel standards, and the supervisor uses a range of liquidity monitoring tools no less extensive than~~,~~ those prescribed in the applicable Basel standards.
(2) The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate.	(2) The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate.
(3) The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events, and includes appropriate policies and processes for managing liquidity risk that have been approved by the banks' Boards. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' risk profile and systemic importance.	(3) The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events~~,~~ and that includes appropriate policies and processes for managing liquidity risk, ~~that~~ which have been approved by the banks' boards. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' liquidity risk tolerance, risk profile and systemic importance.

(4) The supervisor determines that banks' liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment including: (a) clear articulation of an overall liquidity risk appetite that is appropriate for the banks' business and their role in the financial system and that is approved by the banks' Boards; (b) sound day-to-day, and where appropriate intraday, liquidity risk management practices; (c) effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide; (d) adequate oversight by the banks' Boards in ensuring that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the banks' liquidity risk appetite; and (e) regular review by the banks' Boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.	(4) The supervisor determines that banks' liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment, including: (a) clear articulation of an overall liquidity risk appetite that is appropriate for the banks' business and their role in the financial system, and that is approved by the banks' boards; (b) sound day-to-day~~, and where appropriate~~ intraday liquidity risk management practices; (c) effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide; (d) adequate oversight by the banks' boards to ensure ~~in ensuring~~ that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the banks' liquidity risk appetite; and (e) regular review by the banks' boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.
(5) The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (eg credit, market, operational and reputation risk) may impact the bank's overall liquidity strategy, and include: (a) an analysis of funding requirements under alternative scenarios; (b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress; (c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits; (d) regular efforts to establish and maintain relationships with liability holders; and (e) regular assessment of the capacity to sell assets.	(5) The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (eg credit, market, operational and reputation risk) may impact the bank's overall liquidity strategy, and include: (a) an analysis of funding requirements under alternative scenarios; (b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress; (c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits; (d) regular efforts to establish and maintain relationships with liability holders; and (e) regular assessment of the capacity to sell assets.

(6) The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the bank's risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.	(6) The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in ~~the~~ light of the bank's risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.
(7) The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programmes for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.	(7) The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress-testing programmes for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.
(8) The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities.	(8) The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities.
	(9) The supervisor determines that banks' levels of encumbered balance ~~-~~sheet assets are managed within acceptable limits to mitigate the risks ~~posed by excessive levels of encumbrance~~ in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.

Additional criterion: (1) The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.	~~Additional criterion:~~ ~~(1) The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.~~
Principle 25 Operational risk: the supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions.[34] This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk on a timely basis. [34] The Committee has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.	**Principle 25 Operational risk and operational resilience:**[64] The supervisor determines that banks have an adequate operational risk[65] management framework and operational resilience[66] approach that considers their risk profile, risk appetite, business environment, tolerance for disruption to their critical operations,[67] and emerging risks. This includes prudent policies and processes to: (i) identify, assess, evaluate, monitor, report and control or mitigate operational risk on a timely basis; and (ii) identify and protect themselves from threats and potential failures, respond and adapt to, as well as recover and learn from, disruptive events to minimise their impact on delivering critical operations through disruption. [64] Reference documents: BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Revisions to the Principles for the Sound Management of Operational Risk, March 2021; BCBS, Principles for Operational Resilience, March 2021; BCBS, Cyber resilience: range of practices, December 2018; BCBS, Sound Practices Implications of fintech developments for banks and bank supervisors, February 2018; FSB, Guidance on Identification of Critical Functions and Critical Shared Services, July 2013; BCBS, Recognising the risk-mitigating impact of insurance in operational risk modelling, October 2010; BCBS, High-level principles for business continuity, August 2006; Joint Forum, Outsourcing in financial services, February 2005. [65] Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk. [66] Operational resilience refers to the ability of the bank to deliver critical operations through disruption. Operational resilience is an outcome that benefits from the effective management of operational risk. [67] Tolerance for disruption is the level of disruption from any type of operational risk a bank is willing to accept given a range of severe but plausible scenarios. The term "critical operations" encompasses critical functions and includes activities, processes, services and their relevant supporting assets, the disruption of which would be material to the continued operation of the bank or its role in the financial system. Whether a particular operation is critical depends on the nature of the bank and its role in the financial system.

(1) Law, regulations or the supervisor require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the bank's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the bank on a bank-wide basis (including periods when operational risk could increase).	(1) Law, regulations or the supervisor require banks to have appropriate operational risk management and operational resilience strategies, policies, procedures, systems, controls and processes to: (a) identify, assess, evaluate, monitor, report and control or mitigate operational risk; and (b) identify and protect themselves from threats and potential failures, respond and adapt to, as well as recover and learn from, disruptive events to minimise their impact on their delivery of critical operations. These strategies, policies, procedures, systems and controls are consistent with the bank's risk profile, systemic importance, risk appetite, tolerance for disruption and capital strength, and consider market and macroeconomic conditions and emerging risks.
(2) The supervisor requires banks' strategies, policies and processes for the management of operational risk (including the banks' risk appetite for operational risk) to be approved and regularly reviewed by the banks' Boards. The supervisor also requires that the Board oversees management in ensuring that these policies and processes are implemented effectively. (3) The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process.	(2) The supervisor requires strategies, policies and processes for the management of operational risk for all the bank's material products, activities, processes and systems (including the banks' risk appetite for operational risk) and operational resilience approach (including tolerance for disruption to critical operations) to be approved and periodically reviewed by the bank's board. The supervisor also requires that the board oversee senior management to ensure that these policies and processes are implemented effectively and fully integrated into the overall framework for managing risks across the bank. The supervisor determines that banks have adequate functions[68] for the management of operational risk to identify external and internal threats and potential failures in people, processes and systems on an ongoing basis. [68] Including control functions, risk management and internal audit.
	(3) The supervisor determines that the bank has identified its critical operations (consistent with its operational resilience approach) and mapped the people, technology, processes, data, facilities, third-parties or intragroup entities and the interconnections and interdependencies among them that are necessary for the delivery of critical operations through disruption.
	(4) The supervisor determines that banks develop and implement response and recovery plans to manage incidents that could disrupt the delivery of critical operations in line with the bank's risk appetite and tolerance for disruption, and that they continuously improve their incident response and recovery plans by incorporating the lessons learnt from previous incidents.

(4) The supervisor reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the bank. In so doing, the supervisor determines that the bank is able to operate as a going concern and minimise losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.	(5) The supervisor requires that banks conduct business continuity exercises under a range of severe but plausible scenarios to test their ability to deliver critical operations through disruption. The supervisor reviews the quality and comprehensiveness of the bank's business continuity and disaster recovery plans to assess their ability to deliver critical operations. In doing so, the supervisor determines that the bank can operate on an ongoing basis and minimise losses and interruptions to service provision in the event of a severe business disruption or failure (including but not limited to disruption at a service provider and disturbances in payment and settlement systems).
(5) The supervisor determines that banks have established appropriate information technology policies and processes to identify, assess, monitor and manage technology risks. The supervisor also determines that banks have appropriate and sound information technology infrastructure to meet their current and projected business requirements (under normal circumstances and in periods of stress), which ensures data and system integrity, security and availability and supports integrated and comprehensive risk management.	(6) Laws, regulations or the supervisor require banks to implement a robust information and communication technology (ICT)[69] framework, including cyber security, and risk management in alignment with their operational risk management framework and operational resilience approach. The supervisor determines that banks have established appropriate policies and processes to identify, assess, mitigate, monitor and manage ICT risks.[70] These policies and processes also require the board to regularly oversee the effectiveness of the bank's ICT risk management and senior management to routinely evaluate the design, implementation and effectiveness of the bank's ICT risk management. The supervisor also determines that banks have resilient ICT that is subject to protection, detection, response and recovery processes that are regularly tested, incorporate appropriate situational awareness of vulnerabilities and convey relevant timely information for risk management and decision-making processes to fully support and facilitate the delivery of the bank's critical operations. [69] Information and communication technology refers to the underlying physical and logical design of information technology and communication systems, the individual hardware and software components, data and the operating environments. [70] These include cyber security, ICT response and recovery programmes, ICT change management processes, ICT incident management processes and relevant information transmission to users on a timely basis.
(6) The supervisor determines that banks have appropriate and effective information systems to: (a) monitor operational risk; (b) compile and analyse operational risk data; and (c) facilitate appropriate reporting mechanisms at the banks' Boards, senior management and business line levels that support proactive management of operational risk.	(7) The supervisor assesses whether banks have appropriate processes and effective information systems to: (a) regularly monitor operational risk profiles and material operational exposures; (b) compile and analyse operational risk event data, which include internal loss data, and, when feasible, external operational loss event data; and (c) facilitate appropriate reporting mechanisms at the level of the banks' boards, senior management, the independent risk function and the business units that support proactive management of operational risk and operational resilience.

(7) The supervisor requires that banks have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting operational risk at banks in their jurisdictions.	(8) The supervisor requires banks to have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting their operational risk, including reporting of incidents that disrupt critical operations, and their severity.
(8) The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities. Outsourcing policies and processes require the bank to have comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the outsourcing provider and the bank. The outsourcing risk management programme covers: (a) conducting appropriate due diligence for selecting potential service providers; (b) structuring the outsourcing arrangement; (c) managing and monitoring the risks associated with the outsourcing arrangement; (d) ensuring an effective control environment; and (e) establishing viable contingency planning.	(9) Laws, regulations or the supervisor require the board and senior management to understand the risks associated with bank activities performed by service providers and ensure that effective risk management policies and processes are in place to manage these risks. The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor bank activities performed by service providers. The supervisor determines that banks' third-party risk management policies cover: (a) procedures for determining whether and how activities can be provided by service providers, and conducting appropriate due diligence for selecting potential service providers; (b) sound structuring of the service providers' provision, including ownership and confidentiality of data, as well as termination rights; (c) managing and monitoring the risks associated with the service provider arrangement, including the financial condition of the service provider; (d) maintaining an effective control environment at the bank over the service provider, which includes a register of outsourced activities metrics and reporting to facilitate service provider oversight; (e) managing dependencies on arrangements, including (but not limited to) those of service providers, for the delivery of critical operations; (f) maintaining viable contingency planning and developing exit strategies to demonstrate the bank's operational resilience in the event of a failure or disruption at a service provider impacting the provision of critical operations. The bank's business continuity plans should assess the substitutability of the service providers that it uses for critical operations and other viable alternatives that may facilitate operational resilience in the event of an outage at a service provider, such as bringing the activity back in-house; (g) execution of comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the service provider and the bank; and (h) banks' right to audit and ability to request reporting (eg audit reports) and permission for the banks' supervisor to access, directly or via the supervised bank, documentation, data and any other information related to the provision of the activity to the bank.

	(10) The supervisor determines that senior management has established a change management process[71] that is comprehensive, appropriately resourced, adequately divided up between the risk management and control functions, and conducive to the assessment of potential effects on the delivery of critical operations and on their interconnections and interdependencies. [71] A bank's operational risk exposure evolves when it initiates change, such as engaging in new activities or developing new products or services; entering into unfamiliar markets or jurisdictions; implementing new business processes or technology systems or modifying existing ones; and/or engaging in businesses that are geographically distant from the head office. Change management should assess the evolution of associated risks across time throughout the full life cycle of a product or service.
Additional criterion: (1) The supervisor regularly identifies any common points of exposure to operational risk or potential vulnerability (eg outsourcing of key operations by many banks to a common service provider or disruption to outsourcing providers of payment and settlement activities).	Additional criteria: (1) The supervisor regularly identifies any common points of exposure across banks to operational risk or potential vulnerability (eg reliance of many banks on a common service provider, disruption to service providers of payment and settlement activities, exposures to losses from physical risks or from geopolitical events).
	(2) The supervisor assesses concentration risk-related arrangements, and potential systemic risks arising from the concentration of services provided by specific service providers to banks within its jurisdiction.

Principle 26 Internal control and audit: The supervisor determines that banks have adequate internal control frameworks to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent[35] internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations. [35] In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.	**Principle 26 Internal control and audit:**[72] The supervisor determines that banks have adequate internal control frameworks to establish and maintain an ~~properly~~ effectively controlled and tested operating environment for the conduct of their business, considering ~~taking into account~~ their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent[73] internal audit, ~~and~~ compliance and other control functions to test adherence to and effectiveness of these controls as well as applicable laws and regulations. [72] Reference documents: BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022; BCBS, Corporate Governance Principles for Banks, July 2015; BCBS, The internal audit function in banks, June 2012; BCBS, Compliance and the compliance functions in banks, April 2005; BCBS, Framework for internal control systems in banking organisations, September 1998. [73] In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

(1) Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the bank's Board and/or senior management and deal with organisational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse such as fraud, embezzlement, unauthorised trading and computer intrusion). More specifically, these controls address: (a) organisational structure: definitions of duties and responsibilities, including clear delegation of authority (eg clear loan approval limits), decision-making policies and processes, separation of critical functions (eg business origination, payments, reconciliation, risk management, accounting, audit and compliance); (b) accounting policies and processes: reconciliation of accounts, control lists, information for management; (c) checks and balances (or "four eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures; and (d) safeguarding assets and investments: including physical control and computer access.	(1) Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, considering ~~taking into account~~ their risk profile with a forward-looking view.[74] These controls are the responsibility of the bank's board and/or senior management and deal with organisational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse, such as fraud, embezzlement, unauthorised trading and computer intrusion). More specifically, these controls address: (a) organisational structure: definitions of duties and responsibilities, including clear delegation of authority (eg clear loan approval limits), decision-making policies and processes, separation of critical functions (eg business origination, payments, reconciliation, risk management, accounting, audit and compliance); (b) accounting policies and processes: reconciliation of accounts, control lists, information for management; (c) checks and balances (or "four-eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures; and (d) safeguarding assets and investments: including physical control and computer access. [74] The time horizon for establishing a forward-looking view should appropriately reflect climate-related financial risks and emerging risks as needed.
(2) The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organisation (and, where appropriate, in the case of control functions, sufficient access to the bank's Board) to be an effective check and balance to the business origination units.	(2) The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organisation (and, where appropriate, in the case of control functions, sufficient access to the bank's board) to be an effective check and balance to the business origination units.
(3) The supervisor determines that banks have an adequately staffed, permanent and independent compliance function[77] that assists senior management in managing effectively the compliance risks faced by the bank. The supervisor determines that staff within the compliance function are suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's Board exercises oversight of the management of the compliance function. [77] The term "compliance function" does not necessarily denote an organisational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.	(3) The supervisor determines that banks have an adequately staffed, permanent and independent compliance function~~[77]~~ that assists senior management in managing effectively the compliance risks faced by the bank. The supervisor determines that staff within the compliance function are suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's board exercises oversight of the management of the compliance function. ~~[77] The term "compliance function" does not necessarily denote an organisational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.~~

(4) The supervisor determines that banks have an independent, permanent and effective internal audit function[78] charged with: (a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective, appropriate and remain sufficient for the bank's business; and (b) ensuring that policies and processes are complied with. [78] The term "internal audit function" does not necessarily denote an organisational unit. Some countries allow small banks to implement a system of independent reviews, eg conducted by external experts, of key internal controls as an alternative.	(4) The supervisor determines that banks have an independent, permanent and effective internal audit function~~[78]~~ charged with: (a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective~~,~~ and appropriate and remain sufficient for the bank's business; and (b) ensuring that policies and processes are complied with. ~~[78] The term "internal audit function" does not necessarily denote an organisational unit. Some countries allow small banks to implement a system of independent reviews, eg conducted by external experts, of key internal controls as an alternative.~~
(5) The supervisor determines that the internal audit function: (a) has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing; (b) has appropriate independence with reporting lines to the bank's Board or to an audit committee of the Board, and has status within the bank to ensure that senior management reacts to and acts upon its recommendations; (c) is kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes; (d) has full access to and communication with any member of staff as well as full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties; (e) employs a methodology that identifies the material risks run by the bank; (f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and (g) has the authority to assess any outsourced functions.	(5) The supervisor determines that the internal audit function: (a) has sufficient resources~~,~~ and that staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing; (b) has appropriate independence and is accountable ~~with reporting lines~~ to the bank's board or to an audit committee of the board, and ~~has~~ its status within the bank ~~to~~ ensures that senior management reacts to and acts upon its recommendations; (c) is kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes; (d) ~~has full access to and communication~~ may communicate with any member of staff ~~as well as~~ and has full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties; (e) employs a methodology that identifies the material risks run by the bank; (f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and (g) has the authority to assess any outsourced functions.
Principle 27 Financial reporting and external audit: the supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.	**Principle 27 Financial reporting and external audit:**[75] The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function. [75] Reference documents: BCBS, Supplemental note to external audits of banks – audit of expected credit loss, December 2020; BCBS, External audit of banks, March 2014; BCBS, Supervisory guidance for assessing banks' financial instrument fair value practices, April 2009.

(1) The supervisor[79] holds the bank's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and that these are supported by recordkeeping systems in order to produce adequate and reliable data. [79] In this Essential Criterion, the supervisor is not necessarily limited to the banking supervisor. The responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.	(1) The supervisor[76] holds the bank's board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and for ensuring that these are supported by recordkeeping systems ~~in order~~ to produce adequate and reliable data. [76] In this essential criterion, the supervisor is not necessarily limited to the banking supervisor. ~~The~~ Responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.
(2) The supervisor holds the bank's Board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.	(2) The supervisor holds the bank's board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.
(3) The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.	(3) The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.
(4) Laws or regulations set, or the supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk and materiality based approach in planning and performing the external audit.	(4) Laws, ~~or~~ regulations ~~set,~~ or the supervisor set out ~~has the power to establish~~ the scope of external audits of banks and the standards to be followed in performing such audits. These should be aligned with internationally accepted standards and require the use of a risk- and materiality-based approach in planning and performing the external audit.
(5) Supervisory guidelines or local auditing standards determine that audits cover areas such as the loan portfolio, loan loss provisions, non-performing assets, asset valuations, trading and other securities activities, derivatives, asset securitisations, consolidation of and other involvement with off-balance sheet vehicles and the adequacy of internal controls over financial reporting.	(5) Supervisory guidelines or local auditing standards determine that audits cover several areas, including but not limited to ~~such as~~ the loan portfolio, loan loss provisions, non-performing assets, asset valuations, trading and other securities activities, derivatives, asset securitisations, consolidation of off-balance sheet vehicles and other involvement with such ~~off-balance sheet~~ vehicles, and the adequacy of internal controls over financial reporting.
(6) The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards.	(6) The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence~~,~~ or who is not subject to or does not adhere to established professional standards.
(7) The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time.	(7) The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time.
(8) The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.	(8) The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.

(9) The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or regulations provide that auditors who make any such reports in good faith cannot be held liable for breach of a duty of confidentiality.	(9) The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or regulations provide that auditors who make any such reports in good faith cannot be held liable for breach of ~~a~~ the duty of confidentiality.
Additional criterion: (1) The supervisor has the power to access external auditors' working papers, where necessary.	Additional criterion: (1) The supervisor has the power to access external auditors' working papers, where necessary.
Principle 28 Disclosure and transparency: the supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.	**Principle 28 Disclosure and transparency:**[77] The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes. At least for internationally active banks, disclosure requirements are not less stringent than the applicable Basel standards. [77] Reference documents: FSB, Principles and Recommendations for Enhancing the Risk Disclosure of Banks, October 2012; BCBS, Enhancing bank transparency, September 1998; [DIS10], [DIS20], [DIS21], [DIS25], [DIS26], [DIS30], [DIS31], [DIS35], [DIS40], [DIS42], [DIS43], [DIS45], [DIS50], [DIS51], [DIS60], [DIS70], [DIS75], [DIS80], [DIS85], [DIS99].
(1) Laws, regulations or the supervisor require periodic public disclosures[80] of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability and timeliness of the information disclosed. [80] In this Essential Criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing, or other similar rules, instead of or in addition to directives issued by the supervisor.	(1) Laws, regulations or the supervisor require periodic public disclosures[78] of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability and timeliness of the information disclosed. [78] In this essential criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing~~,~~ or other similar rules, instead of or in addition to directives issued by the supervisor.
(2) The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, and basic business, management, governance and remuneration. The scope and content of information provided and the level of disaggregation and detail is commensurate with the risk profile and systemic importance of the bank.	(2) The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, ~~basic~~ business models, management, governance and remuneration. The scope and content of the information provided and the level of disaggregation and detail ~~is~~ are commensurate with the risk profile and systemic importance of the bank. At least for internationally active banks, disclosure requirements are not less stringent than the applicable Basel standards.
(3) Laws, regulations or the supervisor require banks to disclose all material entities in the group structure.	(3) Laws, regulations or the supervisor require banks to disclose all material entities in the group structure.

(4) The supervisor or another government agency effectively reviews and enforces compliance with disclosure standards.	(4) The supervisor or another authority ~~government agency~~ effectively reviews and enforces compliance with disclosure standards.
(5) The supervisor or other relevant bodies regularly publishes information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles).	(5) The supervisor or other relevant authorities ~~bodies~~ regularly publish~~es~~ information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles).
	(6) The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example average exposures or turnover during the reporting period.
Additional criterion: (1) The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example on average exposures or turnover during the reporting period.	~~Additional criterion:~~ ~~(1) The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example on average exposures or turnover during the reporting period.~~
Principle 29 Abuse of financial services: The supervisor determines that banks have adequate policies and processes, including strict customer due diligence rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.[36] [36] The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit, rather than a banking supervisor, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and the financing of terrorism. Thus, in the context of this Principle, "the supervisor" might refer to such other authorities, in particular in Essential Criteria 7, 8 and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria mentioned in this Principle.	**Principle 29 Abuse of financial services:**[79] The supervisor determines that banks have adequate policies and processes, including robust and risk-based[80] ~~strict~~ CDD ~~customer due diligence~~ rules and well equipped compliance functions to promote high ethical and professional standards in the financial sector and prevent the bank from being used~~,~~ intentionally or unintentionally~~,~~ for criminal activities.[81] [79] Reference documents: FATF Recommendations (February 2012, as amended in February 2023); BCBS, Sound management of risks related to money laundering and financing of terrorism, July 2020; FATF, Guidance on Risk-based Supervision, March 2021; FATF, Guidance on correspondent banking services, October 2016; FATF, Risk-based Approach Guidance for the Banking Sector, October 2014; BCBS, Shell banks and booking offices, January 2003. [80] By adopting a risk-based approach, competent authorities and banks should be able to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. [81] The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit, ~~rather than a banking supervisor,~~ may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and the financing of terrorism. Thus, in the context of this principle, "the supervisor" might refer to such other authorities, ~~in~~ particularly in essential criteria 7, 8 and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria ~~mentioned~~ set out in this principle.

(1) Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities.	(1) Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of compliance with the relevant laws and regulations regarding criminal activities.
(2) The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.	(2) The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used~~,~~ intentionally or unintentionally~~,~~ for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.
(3) In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when such activities/incidents are material to the safety, soundness or reputation of the bank.[81] [81] Consistent with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national centre, established either as an independent governmental authority or within an existing authority or authorities that serves as a financial intelligence unit.	(3) In addition to reporting to the financial intelligence unit or other designated authorities, banks report ~~to the banking supervisor~~ suspicious activities and incidents of fraud to the banking supervisor if ~~when~~ such activities/incidents are material to the safety, soundness or reputation of the bank.[82] [82] ~~Consistent~~ In accordance with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national centre, which is established either as an independent governmental authority or as a department within an existing authority or authorities that serves as a financial intelligence unit.
(4) If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authority of such transactions. In addition, the supervisor, directly or indirectly, shares information related to suspected or actual criminal activities with relevant authorities.	(4) If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated ~~authority~~ authorities of such transactions. In addition, the supervisor~~,~~ directly or indirectly~~,~~ shares information related to suspected or actual criminal activities with relevant authorities.

(5) The supervisor determines that banks establish customer due diligence (CDD) policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and there are appropriate steps to identify, assess, monitor, manage and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management programme, on a group-wide basis, has as its essential elements: (a) a customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks; (b) a customer identification, verification and due diligence programme on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant; (c) policies and processes to monitor and recognise unusual or potentially suspicious transactions; (d) enhanced due diligence on high-risk accounts (eg escalation to the bank's senior management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk); (e) enhanced due diligence on politically exposed persons (including, among other things, escalation to the bank's senior management level of decisions on entering into business relationships with these persons); and (f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five year retention period.	(5) The supervisor determines that banks establish ~~customer due diligence (~~CDD~~)~~ policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and ~~there are~~ includes appropriate steps to identify, assess, monitor, manage and mitigate the risks of money laundering~~, and the~~ terrorist financing ~~of terrorism~~ and proliferation financing with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management programme, on a group-wide basis, has as its essential elements: (a) a customer acceptance policy that identifies business relationships that the bank will not accept (or will be terminated) based on identified risks; (b) an ongoing customer identification, verification and due diligence programme~~ on an ongoing basis~~, which encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that CDD information is ~~records are~~ updated and relevant; (c) policies and processes to monitor transactions on an ongoing basis and recognise unusual or potentially suspicious transactions as well as those individuals or entities subject to the United Nations sanctions related to terrorism and proliferation financing; (d) enhanced due diligence on high-risk accounts (eg escalation to the bank's senior management ~~level~~ of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk); (e) enhanced due diligence on politically exposed persons (including their family members and close associates) encompassing, among other things, escalation to the bank's senior management ~~level~~ of decisions on entering into business relationships with these persons; and (f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five year retention period.
(6) The supervisor determines that banks have in addition to normal due diligence, specific policies and processes regarding correspondent banking. Such policies and processes include: (a) gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised; and (b) not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to be shell banks.	(6) The supervisor determines that banks have ~~in addition to normal due diligence,~~ specific policies and processes regarding correspondent banking and other similar relationships, in addition to normal due diligence. Such policies and processes include: (a) gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, their reputation, ~~and~~ how they are supervised and whether they have been subject to money laundering or terrorism financing investigations or regulatory actions; ~~and~~ (b) prohibitions on ~~not~~ establishing or continuing correspondent relationships with those banks that do not have adequate controls against criminal activities, ~~or~~ that are not effectively supervised by the relevant authorities, or ~~with those banks~~ that are considered to be shell banks~~.~~; and (c) senior management approval for entering into new correspondent banking relationships.

(7) The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering and the financing of terrorism.	(7) The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering, ~~and~~ the financing of terrorism and proliferation financing.
(8) The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities.	(8) The supervisor has adequate powers to take action against a bank that does not comply with ~~its obligations related to~~ relevant laws and regulations regarding criminal activities.
(9) The supervisor determines that banks have: (a) requirements for internal audit and/or external experts[82] to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports; (b) established policies and processes to designate compliance officers at the banks' management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported; (c) adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; or when entering into an agency or outsourcing relationship; and (d) ongoing training programmes for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities. [82] These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.	(9) The supervisor determines that banks have: (a) requirements for internal audit and/or external experts~~[82]~~ to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports; (b) ~~established~~ effective policies and processes to designate a compliance officer~~s~~ at the banks' management level~~,~~ to manage the financial crimes compliance programme, and a dedicated officer to whom potential abuses of the bank's financial services (including suspicious transactions) are reported ~~and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported~~; (c) a compliance function and AML/CFT officer with adequate powers, reporting independence, staff and other resources; (~~c~~d) adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; or when entering into an agency or outsourcing relationship; ~~and~~ (~~d~~e) ongoing training programmes for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities; and (f) policies and processes to report criminal activities by staff to competent authorities. ~~[82] These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.~~
(10) The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also determines that banks have and utilise adequate management information systems to provide the banks' Boards, management and the dedicated officers with timely and appropriate information on such activities.	(10) The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to ~~either~~ local management and/or the relevant dedicated officer ~~or to both~~. The supervisor also determines that banks have and utilise adequate management information systems to provide the banks' boards, management and ~~the~~ dedicated officers with timely and appropriate information on such activities.
(11) Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.	(11) Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.
(12) The supervisor, directly or indirectly, cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities where this information is for supervisory purposes.	(12) The supervisor~~, directly or indirectly,~~ cooperates with ~~the~~ relevant domestic and foreign financial sector ~~supervisory~~ authorities or exchanges ~~shares with them~~ information with them regarding ~~related to~~ suspected or actual criminal activities by banks, where this information is for supervisory purposes.

(13) Unless done by another authority, the supervisor has in-house resources with specialist expertise for addressing criminal activities. In this case, the supervisor regularly provides information on risks of money laundering and the financing of terrorism to the banks.	(13) Unless ~~done by~~ another authority is responsible, the supervisor has in-house resources with specialist expertise for addressing criminal activities by banks. In this case, the supervisor regularly provides information on the risks of money laundering and the financing of terrorism to the banks.
	(14) The supervisor determines that banks have in place group-wide programmes to address money laundering, terrorist financing and proliferation financing, including policies and procedures for sharing information within the group for these purposes.