Basel Committee
on Banking Supervision

Technical amendments

Consolidated guidelines and sound practices

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Consequential amendments: consolidated guidelines and sound practices

Introduction

The Basel Committee on Banking Supervision (BCBS or the Committee) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

The Committee establishes and promotes global standards for the regulation and supervision of banks. In addition to standards, the Committee issues guidelines and sound practices:

- **Guidelines** elaborate on the standards in areas where they are considered desirable for the prudential regulation and supervision of banks, in particular internationally active banks. They supplement BCBS standards by providing additional guidance for the purpose of their implementation.
- **Sound practices** describe actual observed practices, with the goal of promoting common understanding and improving supervisory or banking practices.

In 2025, the Committee initiated work to consolidate its guidelines and sound practices into a modular format. This initiative replaces the existing pdf versions of guidelines and sound practices with a consistent and cohesive framework. The consolidated guidelines and sound practices appear in a new area of the Committee's section of the BIS website.[1] They comprise 13 modules setting out expectations and practices on specific topics, each of which is divided into further chapters. This modular format will make it easier to maintain and update the materials over time.

Following the public consultation, the Committee has finalised the text of the consolidated guidelines without change. The Committee wishes to thank respondents for their feedback on the consultation proposals.[2]

As previously highlighted in the consultative document, several of the Committee's standards (as set out in the Basel Framework) refer to the guidelines and sound practices in their original pdf publication format. The Committee is proposing to update these cross-references to refer to the new chapters in the consolidated guidelines and sound practices. In some cases, this has involved removing a cross-reference entirely, as the underlying document is considered to be superseded. For details, see Annex 1: Proposed consequential amendments to the Basel Framework.

In addition, the Committee is also proposing to migrate the contents of certain "Application guidance" chapters in the Basel Framework to the consolidated guidelines. This proposal is intended to reduce the proliferation of guidance materials across the Committee's website and to more clearly distinguish between standards and guidelines. For details, see Annex 2: Migration of "Application guidance" chapters to the consolidated guidelines.

The Committee is consulting on these changes as technical amendments and welcomes any comments on these proposals by 21 December 2026.

[1] https://www.bis.org/committees/bcbs/basel-framework

[2] https://www.bis.org/publications/202602-consultation-consolidated-guidelines-and-sound-practices

Annex 1: Proposed consequential amendments to the Basel Framework

Extracts from the relevant Basel Framework chapters and the proposed changes are set out in the text below. References to the new consolidated guidelines chapters will be embedded as hyperlinks in the Basel Framework.

SCO – Scope and definitions

SCO60 – Cryptoasset exposures

60.121 Cryptoasset activities introduce new kinds of risk and increase certain traditional risks. Banks with direct or indirect exposures or that provide related services to any form of cryptoasset must establish policies and procedures to identify, assess and mitigate the risks (including operational risks, credit risks, liquidity risks including funding concentration risk and market risks) related to cryptoassets or related activities on an ongoing basis. The policies and procedures followed by banks for cryptoasset activities must be informed by existing Basel Committee statements on operational risk management generally and cryptoassets in particular.[20] In accordance with these policies and procedures, banks' operational risk management practices must include, but are not limited to, conducting assessments of these risks (ie how material these risks are, and how they are managed) and taking relevant mitigation measures to improve their operational resilience capabilities (specifically regarding information, communication and technology (ICT) and cyber risks). The decision to hold cryptoassets (either under trading or banking book) and provide services to cryptoasset operators must be fully consistent with the bank's risk appetite and strategic objectives as set down and approved by the board, as well as with senior management's assessment of the bank's risk management capabilities, in particular for market and counterparty risk (including CVA), liquidity risk (including funding concentration risk) and operational risk.

Footnotes

[20] *See ORR10, ORR20, ~~Principles for the Sound Management of Operational Risk; Principles for Operational Resilience~~ and Statement on cryptoassets.*

CAP – Definition of capital

CAP10 – Definition of eligible capital

10.21 The amount of minority interest meeting the criteria above that will be recognised in consolidated Common Equity Tier 1 will be calculated as follows:

(1) Total minority interest meeting the two criteria above minus the amount of the surplus Common Equity Tier 1 of the subsidiary attributable to the minority shareholders.

(2) Surplus Common Equity Tier 1 of the subsidiary is calculated as the Common Equity Tier 1 of the subsidiary minus the lower of:

(a) the minimum Common Equity Tier 1 requirement of the subsidiary plus the capital conservation buffer (ie 7.0% of consolidated RWA); and

(b) the portion of the consolidated minimum Common Equity Tier 1 requirement plus the capital conservation buffer (ie 7.0% of consolidated RWA) that relates to the subsidiary.

(3) The amount of the surplus Common Equity Tier 1 that is attributable to the minority shareholders is calculated by multiplying the surplus Common Equity Tier 1 by the percentage of Common Equity Tier 1 that is held by minority shareholders.

FAQs

FAQ1. Does minority interest (ie non-controlling interest) include the third parties' interest in the retained earnings and reserves of the consolidated subsidiaries?

Yes. The Common Equity Tier 1 in the illustrative example in CAD40~~CAP99~~ should be read to include issued common shares plus retained earnings and reserves in Bank S.

RBC – Risk-based capital requirements

RBC30 – Buffers above the regulatory minimum

30.10 CAD20~~The document entitled "*Guidance for national authorities operating the countercyclical capital buffer*",~~ sets out the principles that national authorities have agreed to follow in making buffer decisions. This chapter~~document~~ provides information that should help banks to understand and anticipate the buffer decisions made by national authorities in the jurisdictions to which they have credit exposures.

LCR – Liquidity Coverage Ratio

LCR20 – Calculation

20.6 In particular, supervisory decisions regarding a bank's use of its HQLA should be guided by consideration of the core objective and definition of the LCR. Supervisors should exercise judgement in their assessment and account not only for prevailing macrofinancial conditions, but also consider forward-looking assessments of macroeconomic and financial conditions. In determining a response, supervisors should be aware that some actions could be procyclical if applied in circumstances of market-wide stress. Supervisors should seek to take these considerations into account on a consistent basis across jurisdictions.

...

(3) Supervisors should assess a number of firm- and market-specific factors in determining the appropriate response, as well as other considerations related to both domestic and global frameworks and conditions. Potential considerations include, but are not limited to:

(a) the reason(s) that the LCR fell below 100%. This includes use of the stock of HQLA, an inability to roll over funding or large unexpected draws on contingent obligations. In addition, the reasons may relate to overall credit, funding and market conditions, including liquidity in credit, asset and funding markets, affecting individual banks or all institutions, regardless of their own condition;

(b) the extent to which the reported decline in the LCR is due to a firm-specific or market-wide shock;

(c) a bank's overall health and risk profile, including activities, positions with respect to other supervisory requirements, internal risk systems, controls and other management processes, among others;

(d) the magnitude, duration and frequency of the reported decline of HQLA;

(e) the potential for contagion to the financial system and additional restricted flow of credit or reduced market liquidity due to actions to maintain an LCR of 100%; and

(f) the availability of other sources of contingent funding such as central bank funding,[1] or other actions by prudential authorities.

Footnotes

[1] LQY10~~The Sound Principles~~ require~~s~~ that a bank develop a contingency funding plan (CFP) that clearly sets out strategies for addressing liquidity shortfalls, in both firm-specific and market-wide situations of stress. A CFP should, among other things, "reflect central bank lending programmes and collateral requirements, including facilities that form part of normal liquidity management operations (eg the availability of seasonal credit)".

LCR30 – High-quality liquid assets

30.20 In accordance with Principle 9 of LQY10~~the Sound Principles~~, a bank "should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner". Specifically, it should have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held. In addition, the bank should determine whether any such assets should be excluded for operational reasons and therefore have the ability to determine the composition of its stock on a daily basis.

30.26 As stated in Principle 8 of LQY10~~the Sound Principles~~, a bank should actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems. Banks and regulators should be aware that the LCR stress scenario does not cover expected or unexpected intraday liquidity needs.

LCR40 – Cash inflows and outflows

40.81 Despite the rollover assumptions in LCR40.78 and LCR40.79, a bank should manage its collateral such that it is able to fulfil obligations to return collateral whenever the counterparty decides not to roll-over any reverse repo or securities lending transaction.[21] This is especially the case for non-HQLA collateral, since such outflows are not captured in the LCR framework. Supervisors should monitor the bank's collateral management.

Footnotes

[21] This is in line with Principle 9 of LQY10~~the Sound Principles~~.

NSF – Net Stable Funding Ratio

NSF10 – Definitions and applications

10.28 Regardless of the scope of application of the NSFR, in line with Principle 6 as outlined in LQY10~~the Principles for Sound Liquidity Risk Management and Supervision~~, a bank should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity.

MGN – Margin requirements

MGN10 – Definitions and application

10.2 Except for physically settled foreign exchange (FX) forwards and swaps, the margin requirements apply to all non-centrally cleared derivatives. The margin requirements described in this standard do not apply to physically settled FX forwards and swaps. However, the Basel Committee and the International Organization of Securities Commissions (IOSCO) recognise that variation margining of such derivatives is a common and established practice among significant market participants. The Basel Committee and IOSCO recognise that the exchange of variation margin is a prudent risk management tool that limits the build-up of systemic risk. Accordingly, the Basel Committee and IOSCO agree that standards apply for variation margin to be exchanged on physically settled FX forwards and swaps in a manner consistent with the final policy framework set out in this document and that those variation margin standards are implemented either by way of supervisory guidance or national regulation. The Basel Committee and IOSCO note that the Basel Committee has updated the supervisory guidance for managing settlement risk in FX transactions.[2] The update to the supervisory guidance covers margin requirements for physically settled FX forwards and swaps. In developing variation margin standards for physically settled FX forwards and swaps, national supervisors should consider the recommendations in the Basel Committee supervisory guidance.

Footnotes

[1] *The Basel Committee has issued supervisory guidance for managing risks associated with the settlement of FX transactions: RMA20~~www.bis.org/publ/bcbs241.htm~~.*

SRP – Supervisory review process

SRP30 – Risk management

30.19 Risk management processes should be frequently monitored and tested by independent control areas and internal, as well as external, auditors.[3] The aim is to ensure that the information on which decisions are based is accurate so that processes fully reflect management policies and that regular reporting, including the reporting of limit breaches and other exception-based reporting, is undertaken effectively. The risk management function of banks must be independent of the business lines in order to ensure an adequate separation of duties and to avoid conflicts of interest.

Footnotes

[3] *See CGO10; IAC10; and FRD20~~the Basel Committee's paper Framework for Internal Control Systems in Banking Organisations (September 1998)~~.*

30.37 In order to enhance the supervisory assessment of banks' valuation practices, the Basel Committee published Supervisory guidance for assessing banks' financial instrument fair value practices ~~in April 2009~~.[4] This guidance applies to all positions that are measured at fair value and at all times, not only during times of stress.

Footnotes

[4] *See CAD30~~also the Basel Committee's paper~~ Fair value measurement and modelling: an ~~assessment of challenges and lessons learned from the market stress, May 2008~~.*

30.46 Stress testing practices have evolved significantly over time. The increasing importance of stress testing, combined with a significant range of approaches adopted by supervisory authorities and banks, highlight the need for high-level principles to guide all elements of a sound stress testing

framework. To this end, the Committee has in place Stress testing principles[5] that cover sound stress testing practices for application to large, internationally active banks and to supervisory and other relevant financial authorities in Basel Committee member jurisdictions. These principles are set at a high level so that they may be applicable across many banks and jurisdictions and to help ensure their relevance as stress testing practices evolve over time. The Principles set out guidance that focuses on the core elements of stress testing frameworks, such as objectives, governance, policies, processes, methodology, resources, and documentation that may guide stress testing activities and facilitate their use, implementation and oversight. Nevertheless, the Basel Committee expects that for internationally active banks, stress testing is embedded as a critical component of sound risk management and supervisory oversight.

Footnotes

[5] RMA30~~Stress testing principles, Basel Committee on Banking Supervision, October 2018, available at www.bis.org/bcbs/publ/d450.htm~~.

30.48 A bank should both assiduously manage its liquidity risk and also maintain sufficient liquidity to withstand a range of stress events.[6]

Footnotes

[6] *See also* LQY10~~the Basel Committee's~~ ~~Principles for Sound Liquidity Risk Management and Supervision, September 2008~~.

SRP31 – Interest rate risk in the banking book

31.10 The governing body[1] has responsibility for understanding the nature and the level of the bank's IRRBB exposure. The governing body should approve broad business strategies as well as overall policies with respect to IRRBB. It should ensure that there is clear guidance regarding the acceptable level of IRRBB, given the bank's business strategies.

Footnotes

[1] *This refers to the body that supervises management. The structure of bank boards differs among countries. See* CGO10~~the Corporate Governance Principles for Banks published by the Committee in July 2015~~.

10.29 Further, banks should perform qualitative and quantitative reverse stress tests[6] in order to:

(1) identify interest rate scenarios that could severely threaten a bank's capital and earnings; and

(2) reveal vulnerabilities arising from its hedging strategies and the potential behavioural reactions of its customers.

Footnotes

[6] *See* RMA30~~the Principles of sound stress testing practices and supervision published by the Committee in October 2018~~.

SRP32 – Credit risk

32.12 A bank should ensure that, in respect of credit risk concentrations, it complies with CRI10~~the Committee document *Principles for the Management of Credit Risk* (September 2000) and the more detailed guidance in the Appendix to that paper~~.

SRP34 – Operational risk

34.1 With reference to ORR10~~the Committee document on *Principles for the Sound Management of Operational Risk* (June 2011)~~, the supervisor should consider whether the capital requirement generated by the Pillar 1 calculation (regardless of the calculation approach used) gives an accurate, consistent picture of the individual bank's operational risk exposure, for example in comparison with other banks of similar size, nature and complexity.

SRP35 – Compensation practices

35.1 Risk management must be embedded in the culture of a bank. It should be a critical focus of the chief executive officer, chief risk officer, chief operating officer, senior management, trading desk and other business line heads and employees in making strategic and day-to-day decisions. For a broad and deep risk management culture to develop and be maintained over time, compensation policies must not be unduly linked to short-term accounting profit generation. Compensation policies should be linked to longer-term capital preservation and the financial strength of the firm, and should consider risk-adjusted performance measures. In addition, a bank should provide adequate disclosure regarding its compensation policies to stakeholders. Each bank's board of directors and senior management have the responsibility to mitigate the risks arising from remuneration policies in order to ensure effective firm-wide risk management.[1]

Footnotes

[7] *Compensation practices at large financial institutions are one factor among many that contributed to the financial crisis that began in 2007. High short-term profits led to generous bonus payments to employees without adequate regard to the longer-term risks they imposed on their firms. These incentives amplified the excessive risk-taking that has threatened the global financial system and left firms with fewer resources to absorb losses as risks materialised. The lack of attention to risk also contributed to the large, in some cases extreme absolute level of compensation in the industry. As a result, to improve compensation practices and strengthen supervision in this area, particularly for systemically important firms, the Financial Stability Board published its Principles for Sound Compensation Practices in April 2009. In addition, the Basel Committee published* ~~The Compensation Principles and Standards Assessment Methodology *in January 2010* *and*~~ the Corporate Governance Principles for Banks *in 2015 (see CGO10). These guidelines accompany this standard.*

SRP36 – Risk data aggregation and risk reporting

36.18 The Principles for effective risk data aggregation and risk reporting are summarised as follows.

(1) Governance - A bank's risk data aggregation capabilities and risk reporting practices should be subject to strong governance arrangements consistent with other principles and guidance established by the Basel Committee.[1]

Footnotes

[1] *For instance, CGO10~~the Basel Committee's Corporate governance principles for banks (July 2015)~~.*

36.21 A bank's risk data aggregation capabilities and risk reporting practices should be:

(1) Fully documented and subject to high standards of validation. This validation should be independent and review the bank's compliance with the Principles in this document. The primary purpose of the independent validation is to ensure that a bank's risk data aggregation and reporting processes are functioning as intended and are appropriate

for the bank's risk profile. Independent validation activities should be aligned and integrated with the other independent review activities within the bank's risk management program,[2] and encompass all components of the bank's risk data aggregation and reporting processes. Common practices suggest that the independent validation of risk data aggregation and risk reporting practices should be conducted using staff with specific IT, data and reporting expertise.[3]

Footnotes

[3] Furthermore, validation should be conducted separately from audit work to ensure full adherence to the distinction between the second and third lines of defence, within a bank's internal control system. See, inter alia, Principles 2 and 13 in IAC10~~the Basel Committee's Internal Audit Function in Banks (June 2012)~~.

36.73 Cooperation can take the form of sharing of information within the constraints of applicable laws, as well as discussion between supervisors on a bilateral or multilateral basis (eg through colleges of supervisors), including, but not limited to, regular meetings. Communication by conference call and email may be particularly useful in tracking required remedial actions. Cooperation through colleges should be in line with the Basel Committee's Principles for effective supervisory colleges.[7]

Footnotes

[7] See SCA40~~www.bis.org/publ/bcbs287.htm~~.

SRP50 – Liquidity monitoring metrics

50.2 These metrics, together with the LCR and NSFR standard, provide the cornerstone of information that aid supervisors in assessing the liquidity risk of a bank. In addition, supervisors may need to supplement this framework by using additional tools and metrics tailored to help capture elements of liquidity risk specific to their jurisdictions. In utilising these metrics, supervisors should take action when potential liquidity difficulties are signalled through a negative trend in the metrics, or when a deteriorating liquidity position is identified, or when the absolute result of the metric identifies a current or potential liquidity problem. Examples of actions that supervisors can take are outlined in LQY10~~the Committee's Sound Principles~~ (paragraphs LQY10.157 to LQY10.159 ~~141–143~~).[1]

Footnotes

[1] LQY10~~The Basel Committee's "Principles for Sound Liquidity Risk Management and Supervision"~~ also contains more general guidance for banks and supervisors on liquidity risk management ~~(www.bis.org/publ/bcbs144.htm)~~.

10.30 As outlined in LQY10~~the Sound Principles~~, banks should also conduct their own maturity mismatch analyses, based on going-concern behavioural assumptions of the inflows and outflows of funds in both normal situations and under stress. These analyses should be based on strategic and business plans and should be shared and discussed with supervisors, and the data provided in the contractual maturity mismatch should be utilised as a basis of comparison. When firms are contemplating material changes to their business models, it is crucial for supervisors to request projected mismatch reports as part of an assessment of impact of such changes to prudential supervision. Examples of such changes include potential major acquisitions or mergers or the launch of new products that have not yet been contractually entered into. In assessing such data supervisors need to be mindful of assumptions underpinning the projected mismatches and whether they are prudent.

50.14 This metric is meant to identify those sources of wholesale funding that are of such significance that withdrawal of this funding could trigger liquidity problems. The metric thus encourages the

diversification of funding sources recommended in LQY10~~the Committee's *Sound Principles*~~. It is defined as follows:

(1) Funding liabilities sourced from each significant counterparty as a % of total liabilities

(2) Funding liabilities sourced from each significant product/instrument as a % of total liabilities

(3) List of asset and liability amounts by significant currency

50.63 For cross-border banking groups, where a bank operates in LVPS and/or with a correspondent bank(s) outside the jurisdiction where it is domiciled, both home and host supervisors will have an interest in ensuring that the bank has sufficient intraday liquidity to meet its obligations in the local LVPS and/or with its correspondent bank(s).[19] The allocation of responsibility between home and host supervisor will ultimately depend upon whether the bank operating in the non-domestic jurisdiction does so via a branch or a subsidiary.

Footnotes

[19] ~~*Paragraph LQY10.162145 of the Sound Principles*~~ *states that "the host supervisor needs to understand how the liquidity profile of the group contributes to risks to the entity in its jurisdiction, while the home supervisor requires information on material risks a foreign branch or subsidiary poses to the banking group as a whole.*

50.73 The time-specific obligations tool will enable supervisors to gain a better understanding of a bank's time specific obligations.[21] Failure to settle such obligations on time could result in financial penalty, reputational damage to the bank or loss of future business.

Footnotes

[21] *These obligations include, for example, those for which there is a time-specific intraday deadline, those required to settle positions in other payment and settlement systems, those related to market activities (such as the delivery or return of money market transactions or margin payments), and other payments critical to a bank's business or reputation (see LQY10.86 footnote ~~610 of the Sound Principles~~). Examples include the settlement of obligations in ancillary systems, CLS pay-ins or the return of overnight loans. Payments made to meet the throughput guidelines are not considered time-specific obligations for the purpose of this tool.*

50.75 A sample reporting template for banks that use correspondent banks (but do not provide correspondent banking services nor are direct participants), and so report only these monitoring tools, is provided in Table 2.

Sample reporting form for banks that use correspondent banks — Table 2

Reporting month				
Name of the correspondent bank				
A(i) Daily maximum intraday liquidity usage	Max	2d max	3d max	Average
Largest positive net cumulative position				
Largest negative net cumulative position				
A(ii) Available intraday liquidity at the start of the business day	Min	2d min	3d min	Average
Total of which: Balance with the correspondent bank				

Total credit lines available from the correspondent bank[22] of which: Secured Committed				
Collateral pledged at the correspondent bank				
Collateral pledged at the central bank				
Unencumbered liquid assets on a bank's balance sheet				
Central bank reserves				
Balances with other banks				
Other				
A(iii) Total payments	Max	2d max	3d max	Average
Gross payments sent				
Gross payments received				
A(iv) Time-specific obligations	Max	2d max	3d max	Average
Total value of time-specific obligations				

Footnotes

[22] LQY10.162~~Paragraph 145 of the Sound Principles~~ states that "the host supervisor needs to understand how the liquidity profile of the group contributes to risks to the entity in its jurisdiction, while the home supervisor requires information on material risks a foreign branch or subsidiary poses to the banking group as a whole.

50.76 The value of payments made on behalf of correspondent banking customers[23] tool will enable supervisors to gain a better understanding of the proportion of a correspondent bank's payment flows that arise from its provision of correspondent banking services. These flows may have a significant impact on the correspondent bank's own intraday liquidity management.[24]

Footnotes

[24] LQY10.87~~Paragraph 79 of the Sound Principles~~ states that: "[T]he level of a bank's gross cash inflows and outflows may be uncertain, in part because those flows may reflect the activities of its customers, especially where the bank provides correspondent or custodian services."

DIS – Disclosure requirements

DIS25 – Composition of capital and TLAC

Template CC1 – Composition of regulatory capital

Row number	Explanation
5	Common share capital issued by subsidiaries and held by third parties. Only the amount that is eligible for inclusion in group CET1 capital should be reported here, as determined by the application of CAP10.20 and CAP10.21 (see CAD40 ~~CAP99.1 to CAP99.7~~ for an example of the calculation).
7	Prudent valuation adjustments according to the requirements of CAP50.11 to CAP50.14, taking into account the guidance set out in CAD30 ~~*Supervisory guidance for assessing banks' financial instrument fair value practices,* April 2009~~ (in particular Principle 10).

DIS30 – Links between financial statements and regulatory exposures

Template PV1 – Prudent valuation adjustments (PVAs)

Purpose: Provide a breakdown of the constituent elements of a bank's PVAs according to the requirements of [CAP50], taking into account the guidance set out in CAD30 ~~*Supervisory guidance for assessing banks' financial instrument fair value practices*, April 2009~~ (in particular Principle 10).

DIS40 – Credit risk

Table CRB-A – Additional disclosure related to prudential treatment of problem assets

Qualitative disclosures
The bank's own definition of non-performing exposures. The bank should specify in particular if it is using the definition provided in PAP10~~the guidelines~~ on the prudential treatment of problem assets ~~(hereafter in this table referred to as the "Guidelines")~~[1] and provide a discussion on the implementation of its definition, including the materiality threshold used to categorise exposures as past due, the exit criteria of the non-performing category (providing information on a probation period, if relevant), together with any useful information for users' understanding of this categorisation. This would include a discussion of any differences or unique processes for the categorisation of corporate and retail loans.
The bank's own definition of a forborne exposure. The bank should specify in particular if it is using the definition provided in PAP10~~the Guidelines~~ and provide a discussion on the implementation of its definition, including the exit criteria of the restructured or forborne category (providing information on the probation period, if relevant), together with any useful information for users' understanding of this categorisation. This would include a discussion of any differences or unique processes for the catagorisation of corporate and retail loans.[2]

Footnotes

~~*[1] www.bis.org/bcbs/publ/d403.pdf*~~

[1] Banks are allowed to (i) merge row (d) of Table CRB with row (b) of Table CRB-A and (ii) merge row (h) of Table CRB with row (d) of Table CRB-A if and only if the bank uses a common definition for restructured and forborne exposures. The bank should clarify in the disclosure that they are applying a common definition for restructured and forborne exposures. In such case, the bank should also specify in the accompanying narrative that it uses a common definition for restructured exposures and forborne exposures that therefore, information disclosed regarding requirements of row (b) and row (d) of Table CRB-A have been merged with the row (d) and row (h) of Table CRB, respectively.

[2] When the accounting framework is IFRS 9, "impaired exposures" are those that are considered "credit-impaired" in the meaning of IFRS 9 Appendix A. When the accounting framework is US GAAP, "impaired exposures" are those exposures for which credit losses are measured under ASC Topic 326 and for which the bank has recorded a partial write-off/writedown.

[3] Please refer to paragraph PAP10.23~~33 of the Guidelines~~, where it is stated: "these value adjustments and provisions refer to both the allowance for credit losses and direct reductions of the outstanding of an exposure to reflect a decline in the counterparty's creditworthiness". For banks not applying PAP10~~the Guidelines~~, please refer to the definition of accounting provisions included in Template CR1, which is in line with paragraph PAP10.23~~33 of the Guidelines~~.

BCP – Core Principles for effective banking supervision

BCP02 – Introduction to the Core Principles

02.9 The concept of proportionality ensures that applicable rules and supervision practices are consistent with banks' systemic importance and risk profiles, as well as appropriate for the broader characteristics of a particular financial system. The objective of proportionality is not to dilute the robustness of standards but to reflect jurisdictions' circumstances and supervisory capacity.[3]

Footnotes

[3] *For further information on practical considerations in implementing proportionality, see PRO10~~the Committee's High-level considerations on proportionality (July 2022) and Guidance on the application of the Core Principles for effective banking supervision to the regulation~~ and PRO20~~supervision of institutions relevant to financial inclusion (September 2016)~~.*

BCP40 – The Core Principles and assessment criteria

40.4 Principle 1:[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.

Footnotes

[1] *Reference documents: BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; SCA10; SCA50~~BCBS, Report on the impact and accountability of banking supervision, July 2015; BCBS, Principles for the supervision of financial conglomerates, September 2012~~; SCO40.*

40.6 Principle 2:[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.

Footnotes

[4] *Reference document: SCA10~~BCBS, Report on the impact and accountability of banking supervision, July 2015~~.*

40.12 Principle 5:[8] The licensing authority has the power to set criteria for licensing banks and to reject applications where 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, 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.

Footnotes

[8] *Reference documents: CGO10 and SCA20~~BCBS, Corporate governance principles for banks, July 2015; BCBS, Shell banks and booking offices, January 2003~~.*

40.14 Principle 6:[12] The supervisor**Error! Reference source not found.** 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.

Footnotes

[12] *Reference documents: SCA20~~BCBS, Parallel-owned banking structures, January 2003; BCBS, Shell banks and booking offices, January 2003~~.*

40.18 Principle 8:[15] An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks, 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.

Footnotes

[15] *Reference documents: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; RMA60~~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; SCA10; SCA60~~BCBS, Guidelines for identifying and dealing with weak banks, July 2015~~; SRP10, SRP20, SCO50.*

40.20 Principle 9:[18] The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, considering the risk profile and systemic importance of banks.

Footnote

[18] *Reference document: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~.*

40.23 Principle 10:[20] The supervisor collects, reviews and analyses prudential reports and statistical returns**Error! Reference source not found.** 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.

Footnotes

[20] *Reference documents: RMA60~~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; SRP36 and RMA10~~BCBS, Principles for effective risk data aggregation and risk reporting, January 2013~~; SCA50~~BCBS, Principles for the supervision of financial conglomerates, September 2012~~.*

40.25 Principle 11:[22] 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, that it can apply at its discretion, to bring about timely corrective actions. This includes the ability to revoke the banking licence or to recommend its revocation.

Footnotes

[22] *Reference document: SCA20~~BCBS, Parallel-owned banking structures, January 2003~~.*

40.27 Principle 12:[24] 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.

Footnotes

[24] *Reference documents: SCA50~~BCBS, Principles for the supervision of financial conglomerates, September 2012~~; SCA20; SCA30~~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.*

40.30 Principle 13:[26] 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.

Footnotes

[26] *Reference documents: Financial Stability Board (FSB), Key attributes of effective resolution regimes for financial institutions, October 2014; SCA20; SCA30; SCA40~~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~~.*

40.32 Principle 14:[27] The supervisor determines that banks 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.

Footnotes

[27] *Reference documents: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; 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, March 2018; CGO10~~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 for Sound Compensation Practices, April 2009.*

40.34 Principle 15:[31] The supervisor determines that banks have a comprehensive risk management process (including effective board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate all material risks**Error! Reference source not found.** (which can include risks related to digitalisation, climate-related financial risks and emerging risks) on a timely basis and to assess the adequacy of their capital, 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 the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.**Error! Reference source not found.**

Footnotes

[31] *Reference documents: ~~PRO10BCBS, High-level considerations on proportionality, July 2022~~; ~~RMA60BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022~~; ~~RMA30BCBS, Stress testing principles, October 2018~~; BCBS, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018; ~~RMA40BCBS, Identification and management of step-in risk, October 2017~~; ~~CGO10BCBS, Corporate governance principles for banks, July 2015~~; ~~RMA20BCBS, Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions, February 2013~~; ~~SRP36 and RMA10BCBS, Principles for effective risk data aggregation and risk reporting, January 2013~~; ~~SCA50BCBS, Principles for the supervision of financial conglomerates, September 2012~~; FSB, Guidance on supervisory interaction with financial institutions on risk culture: a framework for assessing risk culture, April 2014.*

40.36 Principle 16:[37] The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken and presented by a bank in the context of the markets and macroeconomic conditions in which it operates.**Error! Reference source not found.** 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.

Footnotes

[37] *Reference documents: ~~PRO10BCBS, High-level considerations on proportionality, July 2022~~; ~~CAD20BCBS, Guiding principles for the operationalisation of a sectoral countercyclical capital buffer, November 2019~~; SCO10, SCO30, CAP10, CAP30, CAP50, ~~CAD40CAP99~~, RBC20, RBC30, RBC40, LEV10, LEV20, LEV30, SRP10, SRP20.*

40.39 Principle 17:[41] The supervisor determines that banks have an adequate credit risk management process that considers their risk appetite, risk profile, market conditions, macroeconomic factors and forward-looking information. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk**Error! Reference source not found.** (including counterparty credit risk**Error! Reference source not found.**) 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.

Footnotes

[41] *Reference documents: ~~PRO10BCBS, High-level considerations on proportionality, July 2022~~; ~~PAP20BCBS, 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.*

40.41 Principle 18:[45] The supervisor determines that banks have adequate policies and processes for the early identification and management of problem exposures**Error! Reference source not found.** and the maintenance of adequate provisions**Error! Reference source not found.** and reserves.**Error! Reference source not found.**

Footnotes

[45] *Reference documents: ~~PAP10BCBS, Prudential treatment of problem assets – definitions of non-performing exposures and forbearance, April 2017~~; ~~PAP20BCBS, Guidance on credit risk and accounting for expected credit losses, December 2015~~.*

40.43 Principle 19:[2]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.**Error! Reference source not found.** At least for internationally active banks, large exposure requirements are not less stringent than the applicable Basel standard.

Footnotes

[2] *Reference documents: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; Joint Forum, Cross-sectoral review of group-wide identification and management of risk concentrations, April 2008; CRI10~~BCBS, Principles for the management of credit risk, September 2000~~; LEX10, LEX20, LEX30, LEX40.*

40.46 Principle 20:[55] To prevent abuses arising in transactions with related parties**Error! Reference source not found.** 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;**Error! Reference source not found.** monitor these transactions; take appropriate steps to control or mitigate the risks; and write off exposures to related parties in accordance with standard policies and processes.

Footnotes

[55] *Reference documents: CGO10~~BCBS, Corporate governance principles for banks, July 2015~~; CRI10~~BCBS, Principles for the management of credit risk, September 2000~~.*

40.48 Principle 21:[61] The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk**Error! Reference source not found.** and transfer risk**Error! Reference source not found.** in their international lending and investment activities on a timely basis.

Footnotes

[61] *Reference documents: IMF, External debt statistics – guide for compilers and users, 2013~~; BCBS, Management of banks' international lending: country risk analysis and country exposure measurement and control, March 1982~~.*

40.50 Principle 22:[64] The supervisor determines that banks have an adequate market risk management process that considers risk appetite, risk profile, 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.

Footnotes

[64] *Reference documents: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; RBC25, MAR10, MAR11, MAR12, MAR20, MAR21, MAR22, MAR23, MAR30, MAR31, MAR32, MAR33, MAR40, MAR50, MAR99.*

40.52 Principle 23:[65] 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.**Error! Reference source not found.** These systems consider the bank's risk appetite, risk profile and market and macroeconomic conditions.

Footnotes

[65] *Reference documents: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; SRP31.*

40.54 Principle 24:[67] The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) that reflect the liquidity needs of banks. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy considers the bank's risk

profile, 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.

Footnotes

[67] Reference documents: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; LQY10~~BCBS, Principles for sound liquidity risk management and supervision, September 2008~~; LCR10, LCR20, LCR30, LCR31, LCR40, LCR99, NSF10, NSF20, NSF30, NSF99.

40.56 Principle 25:[68] The supervisor determines that banks have an adequate operational risk**Error! Reference source not found.** management framework and operational resilience**Error! Reference source not found.** approach that considers their risk profile, risk appetite, business environment, tolerance for disruption to their critical operations,**Error! Reference source not found.** 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.

Footnotes

[68] Reference documents: FSB, Enhancing third-party risk management and oversight: a toolkit for financial institutions and financial authorities, December 2023; PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; RMA60~~BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022~~; ORR10~~BCBS, Revisions to the principles for the sound management of operational risk, March 2021~~; ORR20~~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; ORR30~~BCBS, Outsourcing in financial services, February 2005~~.

40.59 Principle 26:[77] The supervisor determines that banks have adequate internal control frameworks to establish and maintain an effectively controlled and tested operating environment for the conduct of their business, considering 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**Error! Reference source not found.** internal audit (including those that are outsourced or co-sourced), compliance and other control functions to test adherence to and effectiveness of these controls as well as applicable laws and regulations.

Footnotes

[77] Reference documents: RMA60~~BCBS, Principles for the effective management and supervision of climate-related financial risks, June 2022~~; CGO10~~BCBS, Corporate governance principles for banks, July 2015~~; IAC10~~BCBS, The internal audit function in banks, June 2012~~; IAC20~~BCBS, Compliance and the compliance function in banks, April 2005; BCBS, Framework for internal control systems in banking organisations, September 1998~~.

40.61 Principle 27:[80] 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.

Footnotes

[80] *Reference documents: FRD20; FRD30~~BCBS, Supplemental note to external audits of banks – audit of expected credit loss, December 2020; BCBS, External audits of banks, March 2014~~; CAD30~~BCBS, Supervisory guidance for assessing banks' financial instrument fair value practices, April 2009~~.*

40.64 Principle 28:[82] 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 (including compensation practices). At least for internationally active banks, disclosure requirements are not less stringent than the applicable Basel standards.

Footnotes

[82] *Reference documents: PRO10~~BCBS, High-level considerations on proportionality, July 2022~~; CGO10~~BCBS, Corporate governance principles for banks, July 2015~~; FSB, 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.*

Principle 29 – Abuse of financial services

40.66 Principle 29:[84] The supervisor determines that banks have adequate policies and processes, including robust and risk-based**Error! Reference source not found.** customer due diligence (CDD) rules and effective 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.**Error! Reference source not found.**

Footnotes

[84] *Reference documents: FATF Recommendations (February 2012, as amended in November 2023); AFS10~~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; SCA20~~BCBS, Shell banks and booking offices, January 2003~~.*

Annex 2: Migration of "Application guidance" chapters to the consolidated guidelines

The Committee is proposing to migrate the "Application guidance" chapters in the Basel Framework to the consolidated guidelines. The mapping of the relevant chapters is set out in Table A.1 below. In some cases, this involves migrating contents into a newly created chapter in the consolidated guidelines, while in other cases the contents have been incorporated across existing chapters in the Basel Framework or the consolidated guidelines. The Committee is also proposing to remove certain material from these chapters that it now considers to be obsolete or superseded.

Proposed migration of "Application guidance" chapters — Table A.1

Basel Framework chapter	Consolidated guidelines chapter
CAP99 Application guidance[3]	(NEW) CAD40 Definition of eligible capital
CRE99 Application guidance	(NEW) CRI70 RWA calculations for credit risk
LCR99 Application guidance	(NEW) LQY30 Liquidity Coverage Ratio
NSF99 Application guidance	(NEW) LQY40 Net Stable Funding Ratio
MAR99 Guidance of use of the internal models approach	MIR10 Market risk
SRP98 Application guidance on interest rate risk in the banking book	MIR20 Interest rate risk in the banking book
SRP99 Application guidance	SCA10 Nature of prudential supervision SCA20 Consolidated supervision SCA30 Information-sharing and cooperation

The proposal for how the content of the application guidance chapters would appear in the consolidated guidelines is set out below. The application guidance chapters would be removed from the Basel Framework when they are incorporated into the consolidated guidelines as final.

[3] The Committee is proposing to incorporate some elements of CAP99 (namely those dealing with indirect and synthetic holdings) into responses to frequently asked questions (FAQs) under CAP30 Regulatory adjustments.

CAP99 Definition of capital – Application guidance

The Committee proposes incorporating certain content in CAP99 that elaborates on indirect and synthetic holdings (ie paragraphs 99.9–99.12) into CAP30 Regulatory adjustments by way of two responses to frequently asked questions (FAQs). The material on minority interests (ie paragraphs 99.1–99.7) will be moved into a new chapter (CAD40) under the consolidated guidelines. The material relating to transitional provisions (ie paragraphs 99.13–99.14) is considered obsolete and will be deleted.

CAP30 Regulatory adjustments

…

30.22 The regulatory adjustment described in this section applies to investments in the capital or other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity. These investments are deducted from regulatory capital, subject to a threshold. For the purpose of this regulatory adjustment:

(1) Investments include direct, indirect[5] and synthetic holdings of capital instruments or other TLAC liabilities. For example, banks should look through holdings of index securities to determine their underlying holdings of capital or other TLAC liabilities.[6]

(2) Holdings in both the banking book and trading book are to be included. Capital includes common stock and all other types of cash and synthetic capital instruments (eg subordinated debt). Other TLAC liabilities are defined in [CAP30.3] and [CAP30.4].

(3) For capital instruments, it is the net long position that is to be included (ie the gross long position net of short positions in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year). Banks are also permitted to net gross long positions arising through holdings of index securities against short positions in the same underlying index, as long as the maturity of the short position matches the maturity of the long position or has residual maturity of at least a year. For other TLAC liabilities, it is the gross long position in [CAP30.23], [CAP30.24] and [CAP30.25] and the net long position that is to be included in [CAP30.26].

(4) Underwriting positions in capital instruments or other TLAC liabilities held for five working days or less can be excluded. Underwriting positions held for longer than five working days must be included.

(5) If the capital instrument of the entity in which the bank has invested does not meet the criteria for Common Equity Tier 1, Additional Tier 1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment.[7]

(6) National discretion applies to allow banks, with prior supervisory approval, to exclude temporarily certain investments where these have been made in the context of resolving or providing financial assistance to reorganise a distressed institution.

Footnotes

[5] Indirect holdings are exposures or parts of exposures that, if a direct holding loses its value, will result in a loss to the bank substantially equivalent to the loss in value of the direct holding.

[6] If banks find it operationally burdensome to look through and monitor their exact exposure to the capital or other TLAC liabilities of other financial institutions as a result of their

holdings of index securities, national authorities may permit banks, subject to prior supervisory approval, to use a conservative estimate. The methodology should demonstrate that in no case will the actual exposure be higher than the estimated exposure.

[7] If the investment is issued out of a regulated financial entity and not included in regulatory capital in the relevant sector of the financial entity, it is not required to be deducted.

Frequently asked questions

FAQ1. Is provision of capital support by way of guarantee or other capital enhancements treated as capital invested in financial institutions?

Yes. It is treated as capital in respect of the maximum amount that could be required to be paid out on any such guarantee.

FAQ2. Can the Basel Committee give some examples of what may be considered to be a financial institution/entity?

Guidance should be sought from national supervisors. However, examples of the type of activities that financial entities might be involved in include financial leasing, issuing credit cards, portfolio management, investment advisory, custodial and safekeeping services and other similar activities that are ancillary to the business of banking.

FAQ3. To what extent can long and short positions be netted for the purpose of computing the regulatory adjustments applying to investments in banking, financial and insurance entities?

There is no restriction on the extent to which a short position can net a long position for the purposes of determining the size of the exposure to be deducted, subject to the short position meeting the requirements set out in [CAP30.22] to [CAP30.28].

FAQ4. How should exposures to the capital of other financial institutions be valued for the purpose of determining the amount of to be subject to the threshold deduction treatment?

Exposures should be valued according to their valuation on the balance sheet of the bank. In this way the exposures captured represents the loss to Common Equity Tier 1 that the bank would suffer if the capital of the financial institution is written-off.

FAQ5. Can short positions in indexes that are hedging long cash or synthetic positions be decomposed to provide recognition of the hedge for capital purposes?

The portion of the index that is composed of the same underlying exposure that it is being hedged can be used to offset the long position only if all of the following conditions are met: (i) both the exposure being hedged and the short position in the index are held in the trading book; (ii) the positions are fair valued on the bank's balance sheet; and (iii) the hedge is recognised as effective under the bank's internal control processes assessed by supervisors.

FAQ6. Consider a bank that invests in an equity position (a long position) and sells it forward (a short position) to another bank (with maturity of forward sale below one year). Is it correct that both banks in this example will include a long position on the equity exposure, ie the selling bank cannot net the forward sale (as it has less than one year maturity) and the buying bank must recognise the forward purchase (as all long positions are added irrespective of maturity)? Also, given the fact that cash equity has no legal maturity, how does the maturity matching requirement apply?

In the example both banks will be considered to have long positions on the equity exposure. Furthermore, the Basel III rules require that the maturity of the short position

must either match the maturity of the long position or have a residual maturity of at least one year. Therefore, in the case of cash equity positions the short position must have a residual maturity of at least one year to be considered to offset the cash equity position. However, after considering this issue, the Basel Committee has concluded that, for positions in the trading book, if the bank has a contractual right/obligation to sell a long position at a specific point in time and the counterparty in the contract has an obligation to purchase the long position if the bank exercises its right to sell, this point in time may be treated as the maturity of the long position. Therefore if these conditions are met, the maturity of the long position and the short position are deemed to be matched even if the maturity of the short position is within one year.

FAQ7. Does the five working day exemption for underwriting positions begin on the day the payment is made by the underwriter to the issuing bank?

[CAP30.22] relates to deductions of investments in other financial institutions, where the underlying policy rationale is to remove the double counting of capital that exists when such investments are made. When a bank underwrites the issuance of capital by another bank, the bank issuing capital will only receive recognition for this capital when the underwriter makes the payment to the issuing bank to purchase the capital instruments. As such, the underwriting bank need not include the (committed) purchase within "investments in the capital of other financial institutions" prior to the day on which payment is made by the underwriting bank to the issuing bank. The five day underwriting exemption begins on the date on which this payment is made and effectively permits five working days where double counting can exist before the exposure must be subject to the deduction treatment outlined in [CAP30.22].

FAQ8. Can the Basel Committee give some examples of what may be considered indirect and synthetic holdings?

An indirect holding arises when a bank invests in an unconsolidated intermediate entity that has an exposure to the capital of an unconsolidated bank, financial or insurance entity and thus gains an exposure to the capital of that financial institution. A synthetic holding arises when a bank invests in an instrument where the value of the instrument is directly linked to the value of the capital of an unconsolidated bank, financial or insurance entity. Set out below are some examples of indirect and synthetic holdings to help illustrate this treatment:

(1) The bank has an investment in the capital of an entity that is not consolidated for regulatory purposes and is aware that this entity has an investment in the capital of a financial institution.

(2) The bank enters into a total return swap on capital instruments of another financial institution.

(3) The bank provides a guarantee or credit protection to a third party in respect of the third party's investments in the capital of another financial institution.

(4) The bank owns a call option or has written a put option on the capital instruments of another financial institution.

(5) The bank has entered into a forward purchase agreement on the capital of another financial institution.

In all cases, the loss that the bank would suffer on the exposures if the capital of the financial institution is permanently written off is to be treated as a direct exposure (ie subject to a deduction treatment).

FAQ~~9~~1. *What would be the prudential treatment applicable to a financial instrument where a bank commits itself to buy newly issued shares of an insurance company for a given amount should certain events occur? For example, consider the following case. Bank A enters into a contract with Firm B (an insurance company). The contract stipulates that, if any of the three events defined below occurs within the next three years, Bank A must buy for €10 million new shares of Firm B (leading to a capital increase for Firm B). The new shares are generally issued with a discount (eg 5%) on the average market price recorded on the trading days following the event. In such a case, Bank A has to provide the cash to Firm B within a predefined timeline (eg 10 days). Event 1: Firm B incurs a technical loss above a threshold (eg €1 million) for a specific event (eg natural catastrophe). Event 2: The loss ratio of a given line of business is higher than 120% for two consecutive semesters. Event 3: The share price of Firm B falls below a given value. Bank A is not allowed to sell the financial instrument resulting from this contract to other entities.*

[CAP30.18] to [CAP30.31] provide that investments in the capital of banking, financial and insurance entities include direct, indirect and synthetic holdings of capital instruments. These instruments must be deducted following a corresponding deduction approach (potentially with the application of a threshold). FAQ8~~[CAP99.8] to [CAP99.12]~~ defines indirect and synthetic holdings and provides examples. The transaction described above has to be regarded as a derivative instrument (in this case, a put option) that has a capital instrument (a share) of a financial sector entity as its underlying. Hence, it should be regarded as a synthetic holding to be deducted from Common Equity Tier 1 as per the applicable deduction rules.

CAD40 Definition of eligible capital

Guidelines
This chapter contains supporting information on the calculation of minority interests.
Related standards
• CAP Definition of capital

[Insert paragraphs 99.1–99.7 on minority interests without change]

CRE99 Calculation of RWA for credit risk – Application guidance

The Committee proposes moving all the content formerly set out in CRE99 to a new chapter (CRI70) in the consolidated guidelines.

CRI70 RWA calculations for credit risk

Guidelines

This chapter provides worked examples on how to calculate risk-weighted assets (RWA) for credit risk under various chapters in the Basel Framework.

Related standards

- CRE Calculation of RWA for credit risk

[Insert paragraphs 99.1-99.133 without change]

LCR99 Liquidity Coverage Ratio – Application guidance

The Committee proposes moving all the content formerly set out in LCR99 to a new chapter (LQY30) in the consolidated guidelines.

LQY30 Liquidity Coverage Ratio

Guidelines
This chapter summarises the components of high-quality liquid assets and the run-off factors applied to cash outflows and additional requirements under the Liquidity Coverage Ratio.
Related standards
• LCR Liquidity Coverage Ratio • DIS85 Disclosure requirements

[Insert paragraphs 99.1 without change]

NSF99 Net Stable Funding Ratio – Application guidance

The Committee proposes moving all the content formerly set out in NSF99 to a new chapter (LQY40) in the consolidated guidelines.

LQY40 Net Stable Funding Ratio

Guidelines
This chapter summarises the available and required stable funding factors and provides guidance on the treatment of specific instruments.
Related standards
• NSF Net Stable Funding Ratio • DIS85 Disclosure requirements

[Insert paragraphs 99.1-99.6 without change]

MAR99 Calculation of RWA for market risk – Guidance on use of the internal models approach

The Committee proposes moving all the content formerly set out in MAR99 to MIR10 in the consolidated guidelines.

MIR10 Market risk

~~Other~~Guidelines This chapter lists the standards and other related publications for market risk and sets out guidelines for backtesting requirements and principles for risk factor modellability under the internal models approach for market risk capital requirements.
Related standards • BCP Core Principles for effective banking supervision • RBC Risk-based capital requirements • MAR Calculation of RWA for market risk • MGN Margin requirements • SRP Supervisory review process
Other related publications • Longevity risk transfer markets: market structure, growth drivers and impediments, and potential risks (December 2013) • Incentives to centrally clear over-the-counter (OTC) derivatives (November 2018) • Benchmark rate reforms (February 2020) • Review of margining practices (September 2022) • Margin dynamics in centrally cleared commodities markets in 2022 (May 2023) • Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals (January 2025) • Streamlining variation margin processes and initial margin responsiveness of margin models in non-centrally cleared markets (January 2025) • Review of the implementation of margin requirements for non-centrally cleared derivatives (December 2025)

~~10.1 The Committee has not published any guidelines or sound practices on market risk. Links to the market risk standards and other relevant publications are included in the table above.~~

[Insert paragraphs 99.1–99.22 without change]

SRP98 Supervisory review process – Application guidance on interest rate risk in the banking book

The Committee proposes moving all the content formerly set out in SRP98 to MIR20 in the consolidated guidelines.

MIR20 Interest rate risk in the banking book

~~Other~~Guidelines This chapter ~~lists the standards and other related publications for interest rate risk~~ describes interest rate risk in the banking book, its management techniques and the derivation of the standardised interest rate shocks.
Related standards • BCP Core Principles for effective banking supervision • SRP Supervisory review process
Other related publications • Report on the 2023 banking turmoil (October 2023)

~~30.10 The Committee has not published any guidelines or sound practices on interest rate risk. Links to the interest rate risk standards and other relevant publications are included in the table above.~~

[Insert SRP98 without change]

SRP99 Supervisory review process – Application guidance

The Committee proposes incorporating the content formerly set out in SRP99 into SCA10, SCA20 and SCA30 in the consolidated guidelines. In some cases, the Committee is proposing to delete certain paragraphs (ie 99.2, 99.3, 99.8 and 99.9), as they duplicate content that is already covered in the consolidated guidelines.

SCA10 Nature of prudential supervision

Supervisory review process

…

10.28 ~~99.10~~ In some jurisdictions, Pillar 2 may need to adapt to accommodate the existence of the higher loss absorbency requirements for G-SIBs or D-SIBs. Specifically, it would make sense for authorities to ensure that a bank's Pillar 2 requirements do not require capital to be held twice for issues related to the externalities associated with distress or failure of G-SIBs or D-SIBs if they are captured by the higher loss absorbency requirement. However, Pillar 2 will normally capture other risks that are not directly related to these externalities of G-SIBs and D-SIBs (eg interest rate and concentration risks), so capital meeting the higher loss absorbency requirement should not be permitted to be simultaneously used to meet Pillar 2 requirements that relate to these other risks.

10.29 ~~99.1~~ The supervision of banks is not an exact science, and therefore, discretionary elements within the supervisory review process are inevitable. Supervisors must take care to carry out their obligations in a transparent and accountable manner. Supervisors should make publicly available the criteria to be used in the review of banks' internal capital assessments. If a supervisor chooses to set target or trigger ratios or to set categories of capital in excess of the regulatory minimum, factors that may be considered in doing so should be publicly available. Where the capital requirements are set above the minimum for an individual bank, the supervisor should explain to the bank the risk characteristics specific to the bank which resulted in the requirement and any remedial action necessary.

…

SCA20 Consolidated supervision

Home and host supervision

…

20.11 ~~99.6~~ Before giving consent to the creation of a cross-border establishment, the host country authority and the bank's and banking group's home country authorities should each review the allocation of supervisory responsibilities recommended in this chapter ~~the Concordat[1] in order~~ to determine whether its application to the proposed establishment is appropriate. If, as a result of the establishment's proposed activities or the location and structure of the bank's or the banking group's management, either authority concludes that the division of supervisory responsibilities suggested in this chapter ~~the Concordat~~ is not appropriate, then that authority consults with the other authority on how to promote effective supervisory cooperation, either generally or in respect of specific activities. A similar review should be undertaken by all authorities if there is a significant change in the bank's or banking group's activities or structure.

~~*Footnotes*~~

~~*[2] See* Principles for the supervision of banks' foreign establishments (Concordat), *Basel Committee, May 1983, www.bis.org/publ/bcbsc312.htm.*~~

…

Supervision of capital and liquidity

…

20.16 ~~99.5~~ The Committee supports a pragmatic approach of mutual recognition for internationally active banks as a key basis for international supervisory cooperation. This approach implies recognising common capital adequacy approaches when considering the entities of internationally active banks in host jurisdictions, as well as the desirability of minimising differences in the national capital adequacy regulations between home and host jurisdictions so that subsidiary banks are not subjected to excessive burden.

SCA30 Information-sharing and cooperation

Home-host information-sharing

…

30.6 ~~99.7~~ Before giving ~~either inward or outward~~ consent for the creation of a cross-border banking establishment, a supervisory authority should establish an understanding with the other authority that they may each gather information to the extent necessary for effective home country supervision.~~,~~ Information gathering may occur either through on-site examination or by other means satisfactory to the recipient~~, from the cross-border establishments located in one another's jurisdictions of banks or banking groups chartered or incorporated in their respective jurisdictions~~. Through such bilateral arrangements, all home country authorities should be able to improve their ability to review the financial condition of their banks' and banking groups' cross-border banking establishments.

30.7 At the time of authorisation, there is an opportunity to establish an understanding between home and host supervisors on what information is required by each party and how it can be provided. In some cases, these understandings take the form of bilateral MOUs or exchanges of letters which outline what each party expects from the relationship. The discussions establishing these understandings often help the parties to appreciate fully the nature of each other's supervisory process, and the comfort that can be taken from it.

30.8 ~~99.4 In implementing the Framework, supervisors~~ Supervisors should communicate the respective roles of home country and host country supervisors as clearly as possible to banking groups with significant cross-border operations in multiple jurisdictions. The home country supervisor would lead this coordination effort in cooperation with the host country supervisors. In communicating the respective supervisory roles, supervisors will take care to clarify that existing supervisory legal responsibilities remain unchanged.