Basel Committee
on Banking Supervision

Just get it done[1]

Neil Esho
Secretary General of the Basel Committee on Banking Supervision

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Introduction

It is a pleasure to be back in Abu Dhabi for this annual meeting on financial stability and regulatory and supervisory priorities, which the Basel Committee on Banking Supervision (BCBS) organises jointly with the Financial Stability Institute and Arab Monetary Fund.

In my remarks today I will cover some key elements of the Basel Committee's ongoing work programme. This is not an exhaustive overview, and as it will be the last time I attend this meeting in my capacity as Secretary General of the Basel Committee, I will also include a few personal reflections.

I will cover four broad areas: (i) Basel III implementation and calls for regulatory simplification; (ii) supervisory effectiveness; (iii) digitalisation (in particular cryptoassets); and (iv) non-bank financial intermediation (NBFI).

Basel III implementation

Let's start with Basel III implementation. A former Chair of the Basel Committee would, after often long and difficult discussions, conclude with a simple message to the Secretariat: "just get it done." It was an empowering message. For all the nuance in the discussion, the priority was to get things done. And, when it comes to Basel III implementation, the time has long come to just get it done.

In this section I want to: (i) review the status of Basel III implementation; (ii) discuss the transition to Basel III in terms of its impact on capital ratios; and (iii) offer some thoughts on the debate around simplification of regulatory standards and promoting growth.

To recap, Basel III comprises two planks. The initial standards, which were finalised between

[1] I am grateful to the members of the Basel Committee Secretariat for their comments and suggestions. The views and any errors and omissions are my own.

2010 and 2014, focused on the level and quality of regulatory capital; the capital buffers, the framework for global systemically important banks (G-SIBs), the leverage ratio, liquidity ratios and limits on large exposures. These standards have been implemented by all BCBS members. Importantly, these reforms did not change the calculation of risk-weighted assets. That is, the denominator of the risk-based capital ratio has remained largely unchanged since the Great Financial Crisis (GFC).[2]

The outstanding, or final Basel III reforms, which were finalised between 2017 and 2019 are focused on restoring credibility to the risk-weighted capital framework. These reforms are sometimes referred to as the Basel III endgame in the United States, Basel 3.1, Basel 3.5 or Basel 4. Regardless of the number, the key thing I want to emphasise is that the reforms relate to addressing the severe weaknesses revealed by the GFC. They are not new and, as we all know, have been a long time in the making.

The benefits of implementing the final Basel III package of reforms remain as relevant today as they did when the reforms were first formulated. These benefits include:

- Maintaining credibility in the calculation of risk-weighted assets. This was in response to the experience during the GFC, when the market lost confidence in the risk-based measure and instead relied on simple leverage measures to compare banks. The outstanding Basel III standards enhance the risk sensitivity of standardised approaches, address concerns about internal model approaches and provide a comparable capital ratio across all banks through the output floor.
- Second, having globally consistent standards for internationally active banks is a clear benefit. According to the BIS consolidated banking statistics, banks' foreign claims exceeded $37 trillion at the end of the second quarter of 2025, having increased more than 50% over the past 10 years. The sheer scale of global banking, and the organisation of large internationally active banks (with thousands of subsidiaries across multiple jurisdictions) calls for having a minimum common baseline.
- But perhaps more important than the sheer scale of cross-border activity is what happens when we don't have such standards. Without consistent minimum regulatory standards there is a risk of regulatory fragmentation, regulatory arbitrage and a "race to the bottom" which dilutes the resilience of banks. While weaker standards can promote growth in the short run, they typically lead to excessive risk-taking and the build-up of excessive leverage, which ultimately reverses and results in a sharp contraction in credit, bank failures, broader financial instability and large losses in economic output. In short, weak and inconsistent standards are in no one's long-term interests.

[2] While there were some initial changes to the market risk rules and certain securitisation requirements, these were very targeted and quick responses to the GFC.

Implementation of the final plank of the Basel III reforms started on 1 January 2023, following a one-year delay due to the pandemic. The good news is that the credit risk and operational risk components of Basel III are now in force in over 80% of BCBS member jurisdictions.[3]

The Committee recently began its regulatory consistency assessments of the final elements of the Basel III framework. This is a transparent programme we have in place to check national implementation against the agreed global standard. Members volunteer to be reviewed by their peers, so the assessment is driven by our members and is consensus-based. Although the Committee has no legal power to force compliance or issue penalties, to the extent there are jurisdictional deviations from the Basel III standard, they will be transparently identified along with an assessment of the materiality of any deviations. Market participants can then make their own assessments when comparing regulatory ratios across banks.

Table 1 provides an overview of the status of the key components of Basel III implementation across jurisdictions. A green shade indicates that rules are finalised (light green) and in force (dark green). Red indicates a jurisdiction has not yet published draft rules, while yellow indicates adoption is in progress as evidenced by the publication of a draft rule. As is immediately clear, the picture is mostly dark green – that is, the bulk of the standards have been implemented. While there are delays in implementing the market risk and credit valuation adjustment standards (partly due to their complexity), these standards typically account for a small proportion of risk-weighted assets (typically around 5%). And while there are also implementation delays in some jurisdictions, public statements by senior officials have reiterated a commitment to implement the standards in the near future. Rumours of the death of global regulatory cooperation are therefore greatly exaggerated (okay, at least somewhat exaggerated).

[3] BCBS (2025c).

Table 1: Adoption of key Basel III standards as of 31 October 2025

The date in each cell refers to the publicly announced implementation date (standard implemented by banks), if any.
Click on a cell to see time series information on the adoption status and to get hyperlinks to the relevant Basel standard and the jurisdiction's public announcement of its implementation date.

	Credit risk SA	Credit risk IRB	Market risk	CVA	Operational risk	Output floor
AR	31 December 2024				01 March 2025	
AU	01 January 2023	01 January 2023			01 January 2023	01 January 2023
BR	01 July 2023	01 July 2023	01 January 2027		01 January 2025	
CA	30 April 2023	30 April 2023	31 January 2024	31 January 2024	30 April 2023	30 April 2023
CN	01 January 2024	01 January 2024	01 January 2024	01 January 2024	01 January 2024	01 January 2024
HK	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025
IN	01 April 2027		01 April 2027		01 April 2027	
ID	01 January 2023		01 January 2024	01 January 2024	01 January 2023	
JP	31 March 2024	31 March 2024	31 March 2024	31 March 2024	31 March 2024	31 March 2024
KR	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023
MX	01 September 2021				01 January 2023	
SA	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023	01 January 2023
SG	01 July 2024	01 July 2024	01 January 2025	01 January 2025	01 July 2024	01 July 2024
ZA	01 July 2025	01 July 2025	01 July 2025	01 July 2025	01 July 2025	01 July 2025
CH	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025	01 January 2025
TR						
GB	01 January 2027	01 January 2027	01 January 2027	01 January 2027	01 January 2027	01 January 2027
US						
EU	01 January 2025	01 January 2025	01 January 2027	01 January 2025	01 January 2025	01 January 2025

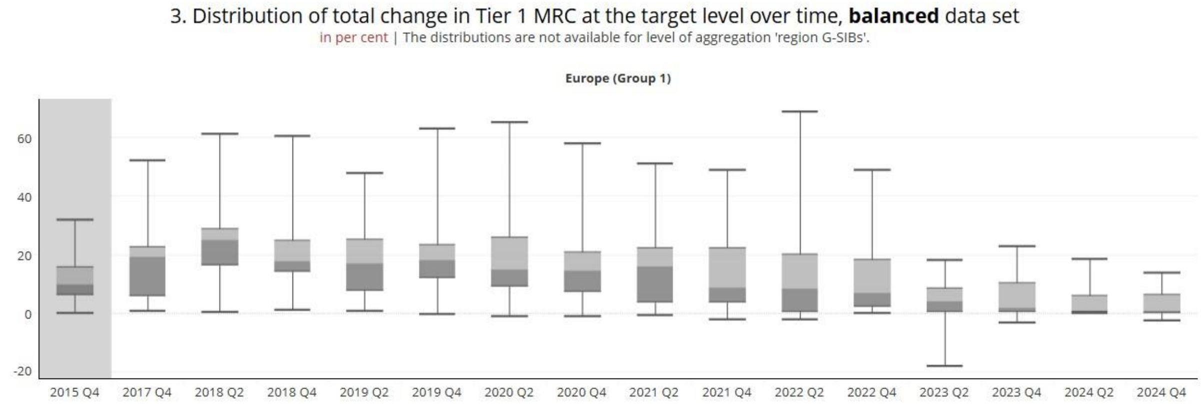
Status
- draft regulation not published
- draft regulation published
- final regulation published (not yet implemented by banks)
- final regulation in force (implemented by banks)
- not applicable

Source: BCBS (2025c).

The next aspect of Basel III implementation that I want to cover is its capital impact. Despite industry concerns, the impact to date has been fairly muted. In fact, for many banks, the implementation of the final Basel III framework will result in a decline in minimum capital requirements (ie banks' capital ratios will increase). In part, this is due to the much greater risk sensitivity introduced into the standardised approaches for measuring risk-weighted assets. It is also worth noting that in many cases, the actual capital impact of the standards has turned out to be far smaller than estimated. That is, banks have tended to overestimate the capital impact of proposed standards through the Committee's regular quantitative impact studies.

Graph 1 shows the distribution of changes in estimated minimum required capital (MRC) for a consistent sample of 29 large internationally active banks from 2015 to 2024. You can see how the variance and medium impact of the reforms steadily decline as we move closer to the implementation start date. The median estimated increase in MRC in 2017 was approximately 8%. By end-2024, the number was more or less zero. Perhaps more striking is the significant decline in the estimated impact on banks that reported very high effects in 2017 (from 20% to 50%). By 2024 this extreme variance is no longer observed. This suggests that some banks significantly adjusted their portfolios and/or somewhat inflated the initial impact. My sense is that there is a combination of both factors in play.

Graph 1: Estimated impact of Basel III on Tier 1 minimum capital requirements



Source: BCBS (2025e). The chart shows the minimum, maximum, median and interquartile range.

Turning to the transition in capital ratios, Table 2 shows Common Equity Tier 1 (CET1) risk-based capital ratios at different times for three regions: Europe; the Americas; and the Middle East, Africa and the Asia Pacific (MAAP). I want to emphasise a few points from this table:

- The top panel shows CET1 ratios based on the initial (2010) Basel III standards. You can see the big increase in ratios from 2011 to 2017 (eg in Europe from 6.5% to 13.5%). Post GFC there has, as we all know, been a (much needed) significant increase in capital requirements. However, most of the adjustment occurred by 2017.
- During this period of significant capital strengthening, we have not seen any evidence of detrimental effects on bank lending or economic growth. Rather, we have repeatedly seen the benefits of having a more resilient global banking system. The Committee has published three evaluation reports that provide empirical evidence to support this claim.[4]
- The bottom panel shows the impact of implementing the final Basel III reforms. You can see that for the Americas and MAAP, the impact is negligible (in the order of 10 to 20 basis points in aggregate).
- In Europe, where the impact is relatively higher, the impact of fully phased-in and consistent implementation of Basel III reforms is manageable. In aggregate, the final

[4] The reports found that: (i) the banking system would have faced greater stress during the Covid-19 pandemic had Basel III reforms not been adopted and in the absence of public support measures; (ii) some areas in the Basel Framework may warrant further review and evaluations; and (iii) the reforms resulted in tangible gains in resilience, with no considerable evidence of negative side effects on banks' capital costs and lending. Banks complying with the Basel III requirements lowered their costs of both debt and equity. Moreover, better capitalised banks lent more. See BCBS (2021, 2022a and 2022b).

ratios are comparable across regions – all are in the range of 13.2% to 13.7%. Note that these ratios assume full and consistent implementation of the Basel standards.

Table 2: Transition to Basel III: 2011–24

CET1: Fully phased-in initial Basel III (balanced data set over time)			
	Europe	Americas	MAAP
June 2011	6.5	5.6	9.1
December 2017	13.5	12.1	12.2
December 2024	14.4	13.3	14.1
Number of banks	21	12	28
CET1: Fully phased-in initial Basel III and fully phased-in final Basel III (at end December 2024)			
	Europe	Americas	MAAP
Fully phased-in initial Basel III	14.8	13.4	13.9
Fully phased-in final Basel III	13.2	13.3	13.7
Number of banks	29	17	46

Source: Basel III Monitoring, public dashboards, all ratios in per cent

The fully phased-in **initial** Basel III framework generally refers to the Basel III framework published in December 2010 and revised in June 2011 and assumes that all phase-in arrangements of the initial Basel III framework had already expired.

The fully phased-in **final** Basel III framework generally refers to the Basel III framework finalised by the GHOS on 7 December 2017.

Source: BCBS (2025d).

Regulatory simplification

I would like to say a few words about the topical issue of regulatory simplification. Since the days of Basel II there has been a much greater focus in the Basel Committee on getting the right balance between simplicity, risk sensitivity and comparability. In fact, during the development of Basel III, we even had a senior-level group (the Task Force on Simplicity and Comparability) assigned to address these issues.

Following the work of the Task Force back in July 2013, the Committee published a discussion paper on balancing risk sensitivity, simplicity and comparability.[5] A former Secretary General, Wayne Byres, gave a speech at that time that very nicely lays out the issues.[6] Let me quote

[5] BCBS (2013).
[6] Byres (2013).

from Wayne's speech, where he describes the broad objectives of international policymaking. He says that the policies should be:

- "comprehensive, yet simple;
- strong, but not burdensome;
- risk-based, yet easy to understand and compare;
- flexible and adaptable, yet consistently applied;
- suitable for normal times, but founded on the lessons from crises;
- built on consensus, but also on the broadest possible engagement; and
- utilising appropriately the relative strengths of both regulation (rules) and supervision (oversight)".[7]

I think that sums up the issues very nicely while also making it clear that finding the right balance is not straightforward. These trade-offs have been front of mind for at least the past decade, and the Basel Framework evolved to reflect them. To illustrate:

- Simple rules, such as Basel I and the leverage ratio, are relatively easy to implement but also easy to arbitrage. On the surface the ratios are comparable, but they are not comparable in a risk-based way. That is, two banks with the same leverage ratio can have vastly different risk exposures and therefore probabilities of failing.
- Introducing risk sensitivity (risk-sensitive standard approaches and internal models) into the capital framework can address the weaknesses of the simple ratios. But at some point, they can get too complex for supervisors and banks to implement, especially internal models. Importantly, complex rules become just as prone to arbitrage and gaming as simple measures. And, as we also know, market participants can lose confidence in very complex measures when it matters most – that is, in stress periods market participants tend to revert to simpler measures that are transparent and easier to communicate. Most fundamentally, uncertainty makes it difficult to confidently model or quantify tail risks. So there are limits to the benefits of ever-more "advanced" models and approaches for calculating regulatory capital requirements.

In this specific area, the Committee balanced the various trade-offs in Basel III by adopting a multiple metrics framework that includes both a leverage ratio and risk-based ratio. Both measures have strengths and weaknesses, which serve to complement each other. The fact that either ratio can bind at different times and on different banks is a design feature – not a bug.

[7] Ibid.

It would be naïve to think that the global regulatory framework has perfectly balanced all the various trade-offs noted above. There are, for sure, areas where the complexity of the global framework could be reduced. I will leave it to others to suggest what could or should be simplified. However, I would note that a number of jurisdictions have already made or proposed changes,[8] which are consistent with the Committee's principles on proportionality.[9]

So rather than focus on the specifics of simplification, I will make one point about the intersection between regulation and supervision – the last point from the Wayne Byres quote. When thinking about simplicity and risk sensitivity, I believe we need to think harder about how to balance the weight we give to supervision and regulation. Risk sensitivity is critical, but ensuring risks are appropriately identified, measured and mitigated doesn't mean we should introduce ever-more risk sensitive rules. We need to recognise that in some areas the quest for "perfect" risk sensitivity becomes counterproductive. Rather, we need to let supervision play its role in getting the right balance between risk sensitivity and simplicity. In a sense, regulation can never be as risk-sensitive as supervision.

I believe reducing undue complexity in the regulatory framework is an important goal worth pursuing. Personally, I have always favoured simplicity and conservatism over an extra margin of risk sensitivity. But, for the following reasons, I also think we need to be cautious and open-minded to the challenges ahead.

Basel III implementation remains the global regulatory priority. Achieving full and consistent implementation will be more difficult if the standards become a moving target. Moreover, there is still a lot to learn about what works well and what doesn't, particularly for those elements of the standards that have only just come into force.

A second concern is purely pragmatic. We have built a complex system with many moving and interconnected parts. That is an argument for examining whether the complexity of the framework can be reduced. However, it also means that achieving consensus on regulatory changes will take considerable time and have a range of potential knock-on effects. Understanding these interconnections and developing solutions that will gather broad support should in my view be a medium- to long-term project.

[8] For example, the Australian Prudential Regulation Authority has recently finalised its proposal to phase out AT1 capital instruments and to restate all current Tier 1 requirements in the capital framework on a CET1 basis (APRA, 2025). Similarly, the UK Prudential Regulation Authority has recently finalised a simplified capital requirements for small banks, in part by replacing the current multiple buffer requirements with a single, transparent buffer (UK PRA, 2025). And the European Central Bank's High-Level Task Force on Simplification published recommendations in December 2025 to simplify the European regulatory, supervisory and reporting framework (ECB, 2025).

[9] The Committee's *High-level considerations on proportionality*, which were developed to provide practical support for authorities seeking to implement proportionality in their domestic frameworks, make it clear that proportionality should not dilute the robustness of standards, and that any simpler proportionate approaches would be *more* conservative to compensate for their lower risk sensitivity.

Third, I believe that simplification should not be equated to deregulation. There is a risk that this is not a universally held view or may not hold up in practice. In my view, this is another reason for proceeding gradually and setting a clear goal of not undermining resilience.

There also seems to be an assumption that regulatory changes can unleash a wave of competitiveness and promote economic growth. We should be realistic about the potential benefits and to whom they will accrue. Whether the purported benefits would materialise in a sustainable way remains highly uncertain.

Finally, on a more practical and perhaps more optimistic note, I would like to mention two projects that the Committee has been working on which represent very good examples of reducing complexity and burden for banks and supervisors without affecting resilience.

First, the Committee will soon consult a on proposal to consolidate all its guidance and sound practices documents (which have been developed over the past 50 years) into a single consolidated framework of guidance – similar to the consolidated framework for standards.[10] In addition to making this material more accessible, the consolidation process will lead to around a 75% reduction in the volume of the guidance simply by streamlining, removing outdated text and eliminating duplication across the various documents. This will be achieved without fundamentally changing the nature of the guidance.

A second example, which the Committee consulted on recently, is to increase the accessibility and usability of Pillar 3 data by making these data available in a machine-readable format.[11] This is an example of using technology to increase both the efficiency and effectiveness of Pillar 3 disclosures to promote market discipline.

Supervisory effectiveness

Let me now turn to the topic of strengthening supervisory effectiveness. During a period when pressure to weaken regulatory standards has intensified, it is important that supervisory effectiveness is maintained. This has, and continues to be, a priority area for the Basel Committee.

Supervisory effectiveness has a fundamental role to play in ensuring banking and financial system stability. When it works, effective supervision is unnoticed and underappreciated. But when it falters, the consequences can be swift, severe and far-reaching.

[10] BCBS (2019).
[11] See BCBS (2025g).

While the GFC and events of March 2023 were a stark reminder of the importance of robust supervision, there have been emerging calls by some to promote growth at the potential risk of undermining supervisory judgment and effectiveness. The pressure on supervisors, direct and indirect, to be less intrusive and not apply judgment could have negative consequences.

What do we mean by effective supervision?

The Committee's Research Group recently conducted a literature review on the lessons on supervisory effectiveness.[12] Effective supervision is defined as promoting the safety and soundness of banks and the banking system by promptly assessing prudential risks, identifying material shortcomings within banks, and using the supervisory toolkit and powers appropriately to ensure that banks remediate shortcomings in a timely manner.

The definition emphasises both the activities of supervision and their outcomes, structured around the supervisory life cycle, which includes:

- Risk-based supervisory assessment – systematically evaluating risks to ensure supervisors focus on the most material issues. This requires good data and risk metrics, and rigorous analysis by technically skilled staff.
- Identification of key issues – applying supervisory judgment to pinpoint material shortcomings. Building on sound technical skills, this requires taking a broad and balanced perspective.
- Supervisory measures – requiring banks to remediate identified shortcomings in a timely manner. By identifying and addressing potential shortcomings before they escalate, supervisors can prevent small issues from growing into systemic risks.
- Timely follow-up – ensuring banks implement remediation measures, supported by enforcement and escalation strategies when necessary. Supervisors must be prepared to intervene decisively, even in the face of incomplete or imperfect information.

Factors that hinder effective supervision and challenges ahead

There are several factors that can hinder effective intervention:

- **Legal powers**: A supervisory authority must have the tools it needs not just to actively identify weaknesses in banks but also to take and enforce prompt actions. This includes protection against lawsuits where it takes these actions in good faith.

[12] BCBS (2025a).

- **Resources:** A supervisory authority needs the appropriate quantity and quality of resources to fulfil its responsibilities effectively. Many supervisors face the difficulty of balancing thorough, consistent supervision with limited staff and budgets.

- **Incentives for early action**: Supervisory teams need to be encouraged to act decisively, even when it's uncomfortable or politically challenging. Striking the right balance between encouraging judgment and ensuring consistency is also a perennial challenge.

- **Escalation and communication:** Robust mechanisms are needed for escalating concerns and communicating them effectively to banks' boards and senior management.

- **Support for intervention:** Senior management within supervisory authorities need to back difficult decisions to intervene. Many supervisors note the importance of having a "bias-to-act". It is often the case that supervisory failures occur due to a lack of intervention rather than a failure to identify material risks.

- More generally, supervisors also face the challenge of the increasing **complexity of the financial system**, including the rise of non-bank financial intermediation, rapid technological innovation and geopolitical risks.

As the Chair of the Committee recently argued, supervision should be viewed as an asset for the banking industry. While there are costs, there are also tremendous benefits. We see the value assigned to regulation and supervision as many new market entrants strive for supervisory endorsement of their products or business models, while simultaneously marketing themselves as disruptors of traditional financial intermediation. For supervision to continue to be of value, it needs to continue to be risk-based and conducted by a strong and independent supervisory authority.[13]

I would now like to cover two areas of the Committee's ongoing work that present significant ongoing supervisory challenges: the growth of non-bank financial intermediaries (NBFIs) and the digitalisation of finance (with a focus on crypto assets).

Non-bank financial intermediation (NBFI)

NBFI (in its various forms) has been a focus area of the central banking and regulatory community for a number of years. Their growth, scale of importance in the financial system and, most importantly, the nature of their interconnections with the regulated banking system warrant attention from bank supervisors.

[13] Thédeen (2025).

Bank-NBFI interconnections: stylised stress scenarios

In a paper published in July 2025, the Committee described various interconnections between banks and NBFIs and used case studies based on historical experience to outline how stress in the NBFI sector could spill over to banks, potentially affecting their safety and soundness.[14] Linkages between banks and NBFIs arise from a wide range of activities and services. Banks provide leverage, clearing, market-making and underwriting services to NBFIs; they trade derivatives with NBFIs; and, in some cases, they own NBFIs. These activities expose banks to credit, counterparty, liquidity, operational and market risks. NBFIs are also exposed to banks through short-term cash placements, investment in securities issued by banks and trading activities.

As a result of these interconnections, distress in NBFIs can impact the banking sector via various channels. Banks' reactions to manage their own risk can amplify fire-sale dynamics and adversely affect overall financial stability. In brief, the four scenarios discussed in the Committee's report, which are summarised in Graph 2, are as follows.

The first scenario is that stress among NBFIs leads to credit losses or liquidity pressure on banks and other market participants. Losses associated with the failure of Archegos – which were in the range of $10 billion – provide a stark and recent example of this scenario's impact. Among other things the Archegos episode highlighted weakness in bank governance and risk management, extremely poor margining practices and a failure to understand the overall risk exposure of significant counterparties In response, the Committee finalised guidelines for counterparty credit risk management in December 2024.[15] This replaced and significantly enhanced a sound practices document we issued back in 1999. The guidelines provide a supervisory response to the significant shortcomings that have been identified in banks' management of counterparty credit risk, including lessons learned from recent episodes of NBFI distress.

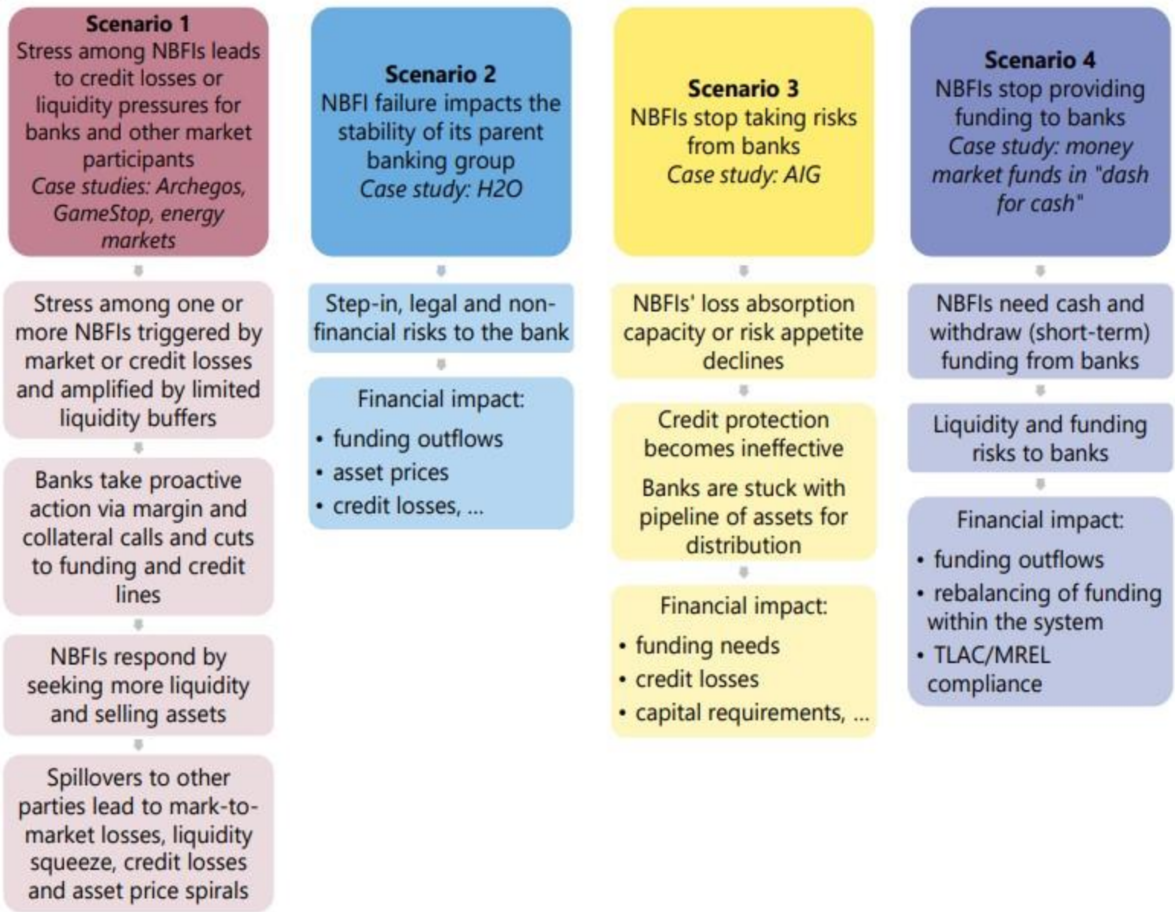
The next scenario is that the failure of an NBFI impacts the parent banking group. This could be via direct losses driven by a bank's need to step in and provide support to an NBFI or via non-financial risks. A case study of losses associated with H2O illustrates how an NBFI owned by a bank can affect the bank itself.

NBFIs support banking activities by taking risk from the banking sector. A third scenario explored in the Committee's report is that NBFIs stop taking risks from banks that depend on them. This type of scenario is illustrated by the failure of AIG during the GFC. That case highlighted weaknesses in counterparty risk management, excessive reliance on ratings, unstable and unsustainable business, and extreme concentration risk.

[14] BCBS (2025b).
[15] BCBS (2024d).

The last scenario explored in the report is that NBFIs stop providing funding to banks, as money market funds did during the March 2020 "dash-for-cash". This case highlights the risks posed by concentration in bank funding models and the ways in which funding pressures can spread to banks through complex liquidity chains.

Graph 2: Stylised stress scenarios



While these scenarios outline some avenues by which distress could spread between banks and NBFIs, the interconnections between the two sectors are evolving and distress could manifest or spread in unexpected ways. For this reason, the risks from banks' interconnections with NBFIs require continued vigilance.

Synthetic risk transfer

One way the interconnections between the banking and NBFI sectors is changing is through the rapid growth in the use of synthetic risk transfers (SRTs) over the past decade. SRTs allow banks to transfer credit risk to a counterparty while retaining ownership of the underlying assets. Banks primarily use them to manage credit risk and capital requirements, while investors are motivated by SRTs' ability to provide exposure to credit risk underwritten in accordance with bank lending standards without having to service the assets.

In general, the SRTs in use today are less complex than the securitisation structures used during the GFC, in part due to post-GFC regulatory and supervisory reforms. SRT protection is usually funded, which reduces banks counterparty credit risk (ie if losses occur on the loan portfolio, collateral provided by the investor is used to reimburse the bank). On the flip side, there is more opacity (while the portfolios may be rated, those ratings are not necessarily disclosed); there is potentially a mismatch between the maturity of the SRT and lending intention of the bank; and there is potentially greater procyclicality if banks build excessive concentrations to SRT investors who may be less willing or less able to provide protection in downturns. Moreover, use of unfunded SRTs (which are less common) expose the bank to significant counterparty credit risk. Banks can mitigate these risks in a variety of ways, though the efficacy of risk mitigants has not yet been tested by large-scale credit losses.

Private credit

The last element of NBFI that I wish to cover is private credit. The Financial Stability Board (FSB) recently highlighted private credit as a concern.[16] This reflects a number of factors, including:

- significant growth in the market, with some estimates as high as \$2 to \$3 trillion; losses incurred by some providers on exposures to failed firms (eg First Brands and Tricolour);
- the expansion of private credit into new business lines (potentially increasing complexity and risks);
- the emergence of relatively new credit rating agencies;
- the opacity of the market; and
- the potential expansion of the investor base to the retail segment.

While a diverse financial system, the broader provision of credit and the transfer of certain risks outside the regulated banking sector have benefits, banks' direct and indirect exposures have the potential to affect the stability of individual banks and the financial system more broadly. Hence, this remains an area that requires ongoing monitoring.

[16] FSB (2025).

Digitalisation of finance

The final area of the Committee's work I want to cover today is the digitalisation of finance. Digitalisation and technological innovation more generally are shaping, and will continue to shape, the future of finance.[17] I wish to cover one element of this – that is the Basel Committee's cryptoasset standard which was first published in 2022. This was followed by some targeted amendments and finalisation of a disclosure framework in 2024.[18] The standard has an expected implementation date of 1 January 2026.

It is worth emphasising that the Committee's standards focus on risk management and regulatory requirements related to banks' exposures to cryptoassets. They do not provide a regulatory framework for the issuance of cryptoassets or stablecoins, which is covered by FSB principles.[19]

In November 2025, the Committee announced its intention to expedite a review of the cryptoassets standard.[20] This reflects the fast-changing nature of the stablecoin market, including the emergence of stablecoin regulatory frameworks in a number of jurisdictions.

Let me review quickly the existing standard before outlining the areas subject to review (see Graph 3).

In terms of scope, the prudential standard for cryptoassets is intended to be comprehensive and covers tokenised assets, stablecoins, unbacked cryptoassets and other assets issued on distributed ledgers or similar technologies (central bank digital currencies, however, are out of scope).

The standard prescribes the regulatory treatment for different types of cryptoassets based on two broad groupings: group 1 and group 2 exposures.

Group 1 exposures are viewed as those that can be captured within our traditional risk measurement methodologies. This includes tokenised versions of traditional assets and certain stablecoins. Generally, the capital treatment follows the existing Basel Framework.[21] To be eligible for inclusion in group 1, exposures must meet four classification conditions:

1) The cryptoasset must be a tokenised traditional asset or stablecoin with an effective stabilisation mechanism. For stablecoins, this includes detailed criteria around the stabilisation mechanism, redemption risk and the issuer being supervised, regulated and subject to capital and liquidity requirements.

[17] BCBS (2024a).
[18] BCBS (2025c).
[19] FSB (2023)
[20] BCBS (2025f).
[21] However, there is also a national discretion for authorities to apply an infrastructure risk add-on for any observed or perceived weaknesses stemming from the underlying technology.

2) There must be clear legal rights and enforceability to ensure settlement finality.

3) Material risks arising from the network must be sufficiently mitigated.

4) All entities participating in the system must be appropriately regulated and supervised.

I think it's hard, in principle, to disagree with those conditions. However, it is also true that no currently issued stablecoin would meet the conditions.

Group 2 exposures are those that don't meet the above conditions and to which a simple and prudent treatment is applied. The standard allows for limited recognition of hedging where the cryptoasset meets certain conditions, including that it is: (i) regulated or references a regulated product; (ii) is highly liquid; and (iii) there is sufficient data on price, trading volume and market capitalisation. However, to avoid the build-up of very large gross exposures (even though net exposures could be small), strict limits on gross bank exposures to group 2 cryptoassets are applied (up to 2% of Tier 1 capital).

Cryptoassets that do not meet the hedging criteria are subject to a 1250% risk weight and are also included within the scope of the overall group 2 limits.

To date, the banking industry's exposures to cryptoassets have remained limited. Bank exposures to cryptoassets stood at just over €14 billion as at the end of 2024.[22] While exposures have been increasing, they remain relatively small in absolute terms. As a result, the banking industry has been largely immune to the volatile price swings that have been observed in certain cryptoassets. Bank depositors should feel comforted by that!

Nevertheless, the latest review announced by the Committee will focus on the areas that the Committee highlighted when it finalised the standard in 2022. This includes: (i) permissionless blockchains; (ii) group 1b cryptoassets received as collateral; (iii) group 2a criteria and degree of hedge recognition; and (iv) calibration of group 2 exposure limits. In addition, the Committee will also consider the emergence of regulatory frameworks for stablecoins.

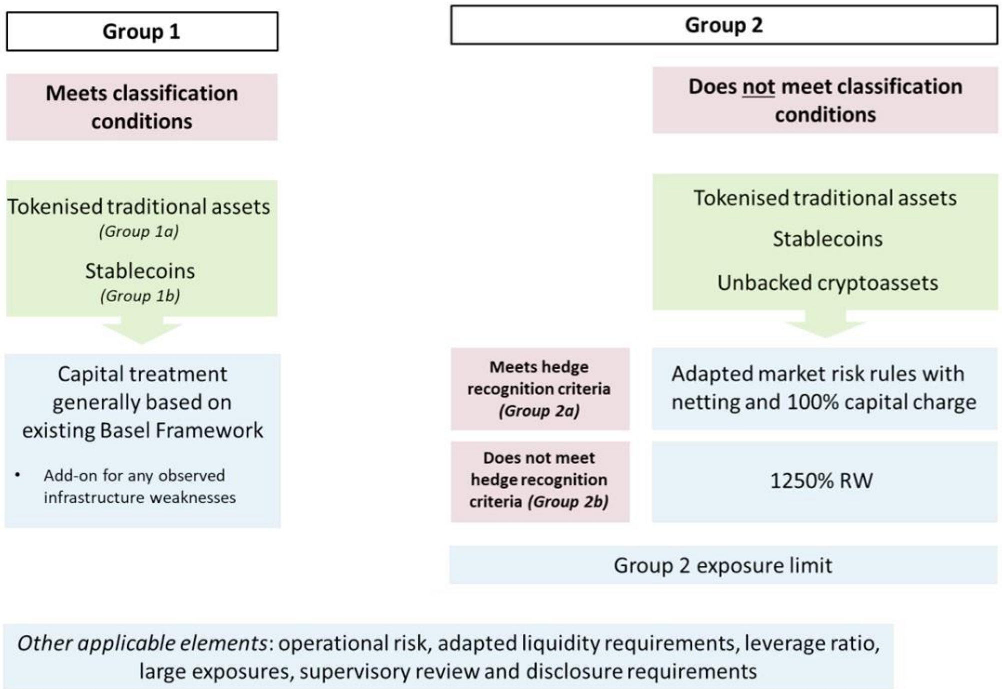
With respect to permissionless distributed ledger technologies, in 2024 the Committee published a working paper that outlined some of the risks.[23] This focused on risks related to operations and security, governance, legal risk, compliance – including money laundering/financing of terrorism – and settlement finality. It also covered risks that stem from the blockchains' reliance on unknown third parties, which makes it difficult for banks to conduct due diligence and oversight. The working paper concluded that practices for mitigating these risks remain in various stages of development and have not been tested under stress.

[22] BCBS (2025e).

[23] BCBS (2024c).

Looking ahead, the key analytical questions that will need to be considered are whether changes in technology and/or other control mechanisms can mitigate (at least to some extent) some of the identified risks. It is fair to say that on these issues there remain different views around the risks, around the potential use cases for stablecoins and on the implications for traditional financial intermediaries. In the best-case scenario, stablecoins will provide an alternative, safe and efficient payment mechanism (particularly where such services don't exist); offer greater competition with traditional finance; and act as another source of demand for government securities. In the worst-case scenario, stablecoins will grow rapidly with a large retail customer base; circumvent certain restrictions such as those on paying interest and leverage; operate without the safeguards applied to banks; at some point experience severe stress; and cause retail customers to incur losses that will be covered by the public sector. We should do everything we can to promote the best-case and avoid the worst-case scenario.

Graph 3: BCBS prudential standard on cryptoassets



Conclusion

The history of banking crises and exogenous shocks has repeatedly demonstrated the benefits of strong regulation and effective supervision. There are many challenges ahead. Beyond staying on top of risks related to bank interconnections with NBFIs and cryptoassets, there are:

- traditional risks we should not ignore (credit, interest rate risk in the banking book, market and liquidity risks);

- concentration risk in various forms (more concentrated banking system; limited cloud service providers; limited large language models); and
- fundamental structural changes (such as the impact of technology/digitalisation and artificial intelligence, and of course the threat of cyber attacks).

But the good news is that banks have been doing very well! Higher capital and liquidity standards have not unduly restricted credit growth and profitability, while market valuations and returns on equity have been healthy.

Against that backdrop, we need to get the job done and hold the line on regulatory standards and supervisory effectiveness.

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