

Basel Committee
on Banking Supervision



Update on the work of the Basel Committee

The Annual Chief Risk Officers Forum in Arab Banks

8 December 2022

Outline

- Risk assessment and horizon scanning
- Digitalisation of finance
- Climate-related financial risks
- Basel III implementation, monitoring and evaluation

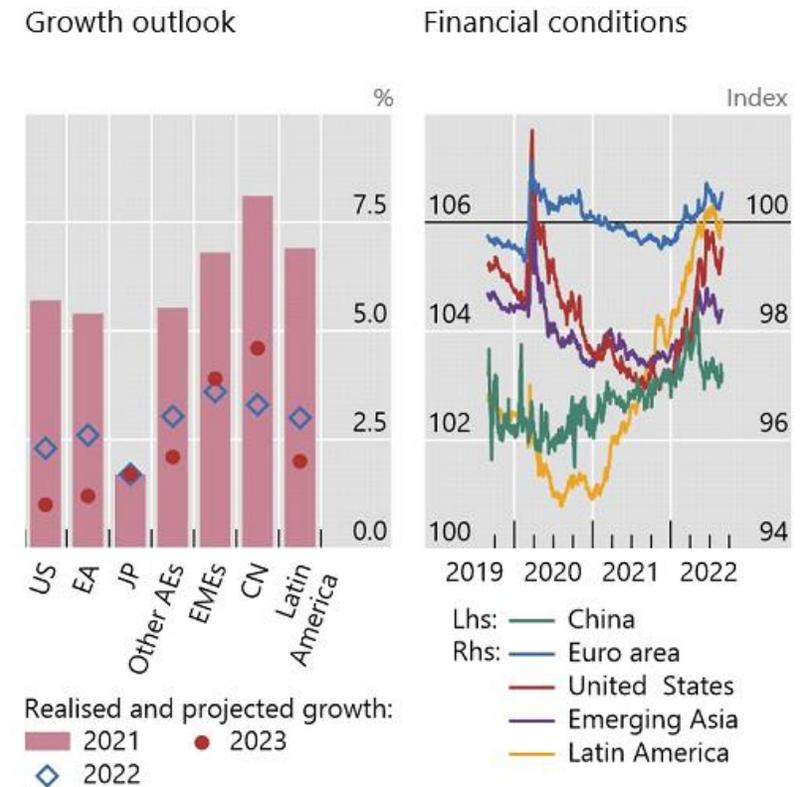
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Risks and vulnerabilities to the global banking system (1)

- Continued uncertainty
- Bumpy transition from pandemic to endemic
- Rising rates and inflationary surge
- Worsening macroeconomic outlook

Figure 1: Growth outlook and financial conditions^(a)



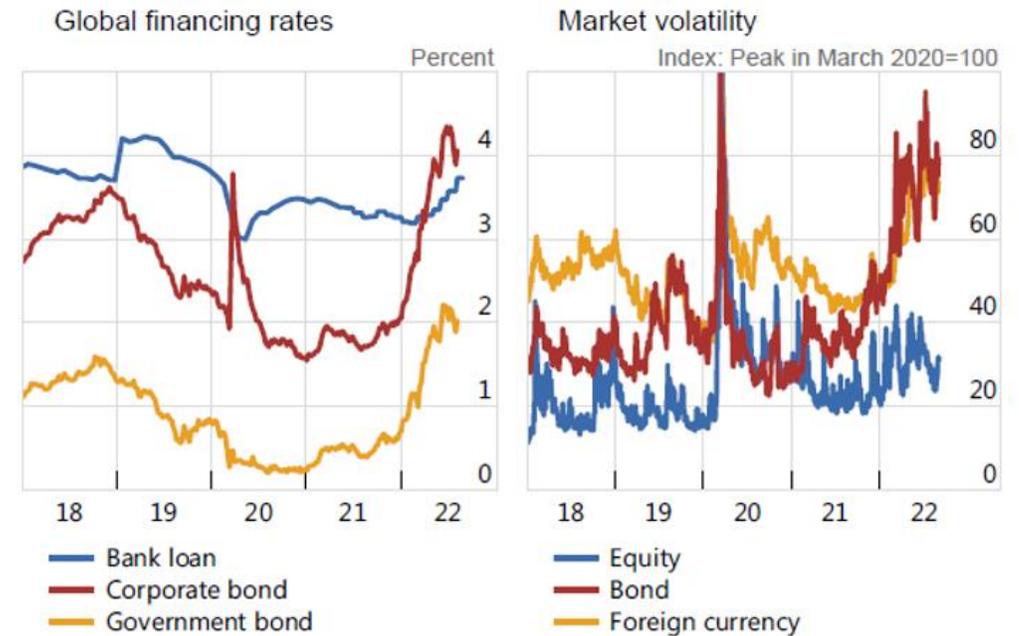
Sources: BIS; Bloomberg; IMF.

(a) Growth outlook based on July 2022 WEO update. Financial conditions based on Goldman Sachs Financial Conditions Index, which is a weighted average of country-specific "riskless" interest rates, exchange rate, equity variations and credit spreads, with weights that correspond to the estimated impact of each variable on GDP. A value of 100 indicates average conditions. A higher (lower) value indicates tighter (looser) conditions.

Risks and vulnerabilities to the global banking system (2)

- Snapback risk and inflation
 - Headwinds and tailwinds from rising rates
- Risk management and mitigation strategies
 - Supervisory responses and guidance
 - Review of interest rate risk in the banking book shock scenarios
- Prudent build-up and use of buffers to help absorb shocks

Figure 2: Financing rates and market volatility^(a)



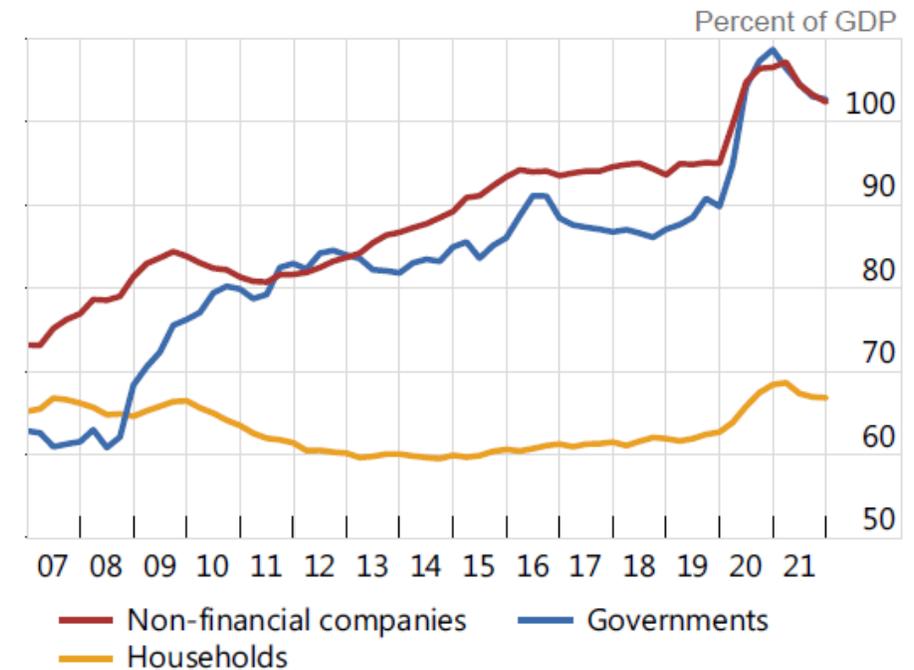
Sources: BIS; Bloomberg; Datastream; Goldman Sachs; JP Morgan.

(a) Market volatility measured based on the VIX index for equity, the MOVE index for bond and the JPM FX volatility index for foreign currency.

Risks and vulnerabilities to the global banking system (3)

- Asset valuations
 - High debt levels (eg housing)
 - Loosening of underwriting standards (eg leveraged lending)
 - Market volatility
- Liquidity resilience
 - Higher funding costs
 - Reliance on public support measures?

Figure 3: Non-financial sector debt^(a)



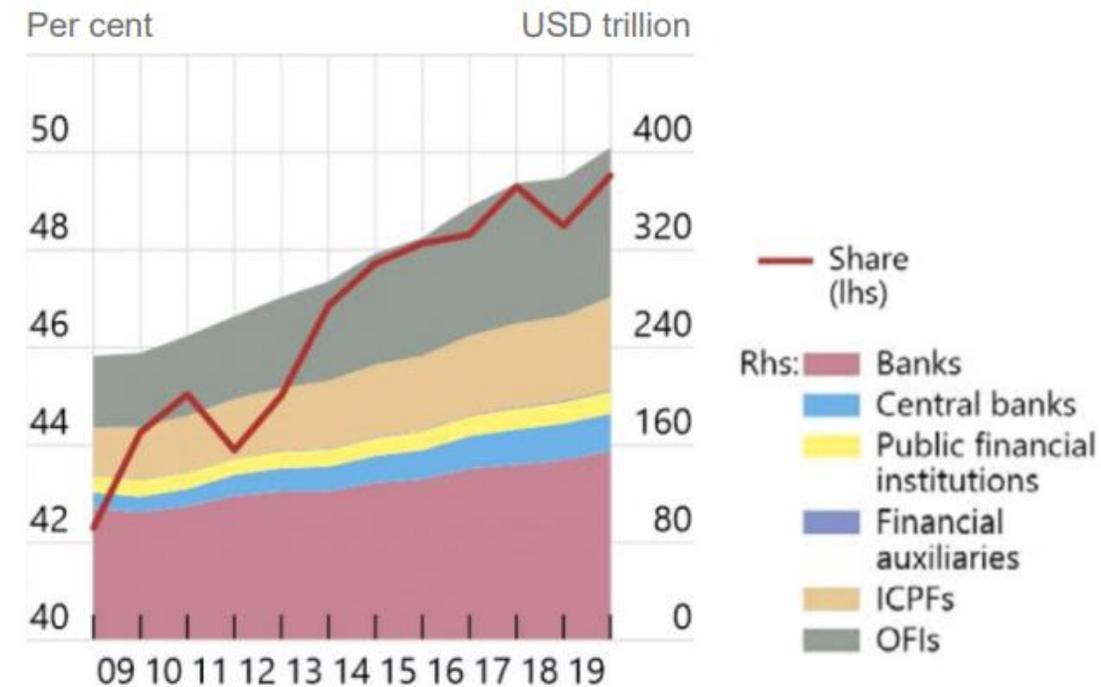
Source: BIS.

(a) For FSB member jurisdictions.

Risks and vulnerabilities to the global banking system (4)

- Changing structure of financial system
 - Rise in non-bank financial intermediation (NBFI)
 - March 2020 'market turmoil' underlined further vulnerabilities
 - Recent examples of impact of NBFI distress on banks (eg Archegos, Evergrande, Greensill, Huarong, Ukraine conflict etc.)
- Implications for banks and supervisors
 - Interconnectedness between banks and NBFI
 - Regulatory perimeter
 - Develop additional supervisory guidance

Figure 4: Composition of total financial assets



Source: FSB (2021).

ICPFs = Insurance corporations and Pension funds; OFIs = other financial intermediaries

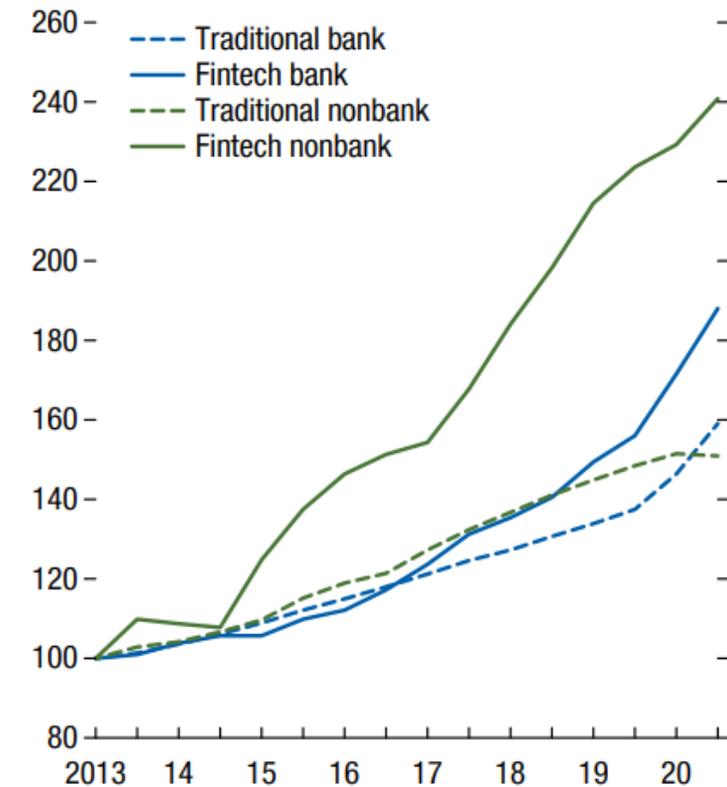
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Digitalisation of finance

- Rise and rise of digital finance
 - Expansion in set of financial services
 - New processes and distributional channels
 - Arrival of new “suppliers” of services
- Committee initiatives
 - Deep-dive thematic analyses on: (i) impact of digitalisation and disintermediation on banks; and (ii) Banking as a Service
 - Supervisory implications of use of big data, artificial intelligence and machine learning

Figure 5: Asset growth of “traditional” financial institutions and fintechs^(a)



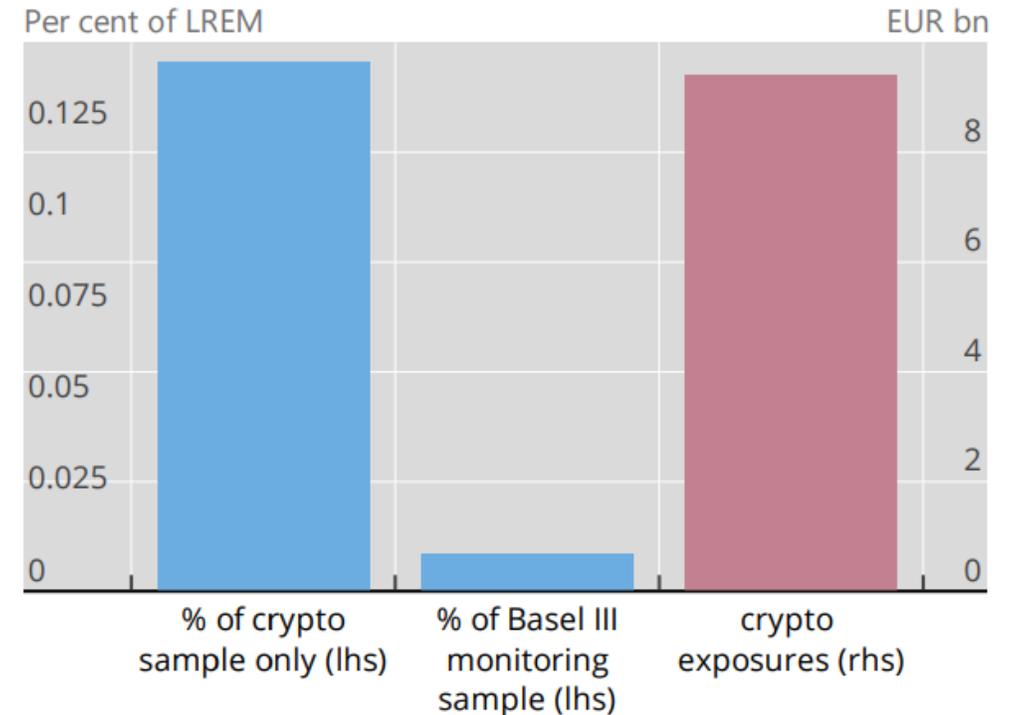
Source: IMF (2021).

(a) Median growth based on normalised scale; 2013 H1 = 100. For a sample of 13 advanced economies and seven emerging market economies.

Cryptoassets

- Growing interest by banks
- Wide range of potential interconnection channels
- Financial stability and prudential implications
- BCBS work
 - Finalisation of prudential treatment
 - Ongoing monitoring of banks' exposures
 - Role of banks as custodians and stablecoin issuers?

Figure 6: Banks' cryptoasset exposures^(a)

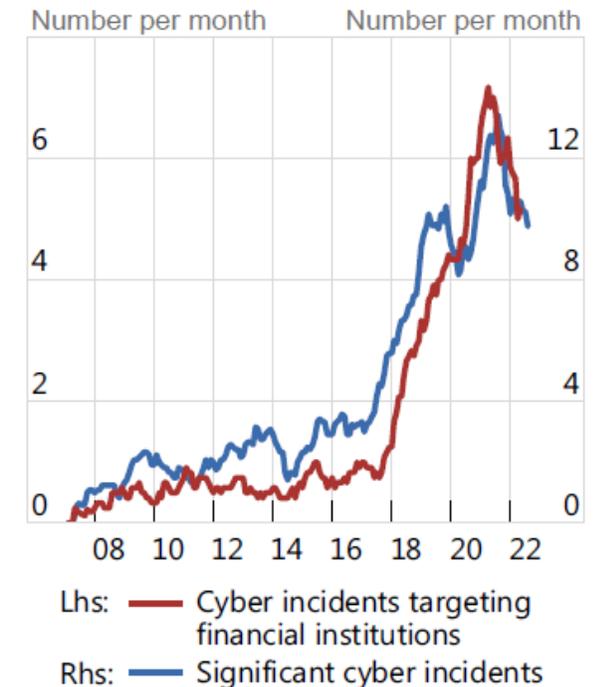


Source: BCBS (2022). Crypto sample comprises 19 internationally active banks – 10 from the Americas, seven from Europe and two from the rest of the world. The wider Basel III monitoring sample comprises 182 banks.

Operational resilience

- Ability to deliver critical operations through disruption
- Evolving landscape
 - Cyber threats
 - Reliance on third- and fourth-party service providers
 - Remote working arrangements
- BCBS work
 - Principles for operational resilience (March 2021)
 - Revised principles for the sound management of operational risk (March 2021)
 - Additional guidelines on outsourcing

Figure 7: Cyber incidents targeting financial institutions^(a)



Source: Carnegie Endowment for International Peace and FSB.

(a) 1-2 month rolling averages of cyber incidents targeting financial institutions (including FinTechs) that are included in the Carnegie Endowment timeline and significant cyber incidents recorded by the Center for Strategic & International Studies. These are defined as an economic crime with a loss of more than \$1mn, or an attack on government agencies, defence firms or technology companies.

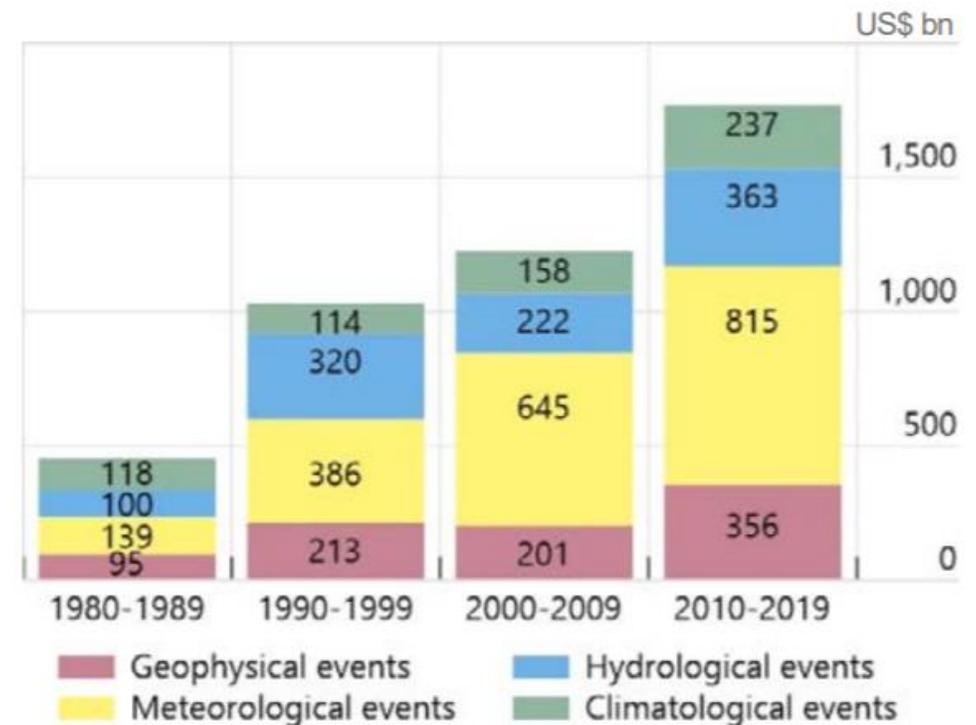
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Climate-related financial risks (1)

- Climate change poses risks to the banking system
 - Physical and transitional risks
 - Cross-border financial stability implications
 - Analytical reports on transmission channels (April 2021)
- Holistic workplan
 - Regulation
 - Supervision
 - Disclosure

Figure 8: Global economic loss from natural catastrophe events



Source: FSB (2020).

Climate-related financial risks (2)

- Regulation
 - Clarifications of implementing existing Pillar 1 framework
 - “Gap analysis” and potential additional measures
- Supervision
 - Principles for the effective management and supervision of climate risks (June 2022)
 - Use of transition planning, scenario analysis and Pillar 2 capital
- Disclosure
 - Pillar 3 disclosure framework
 - Cooperation with International Sustainability Standards Board

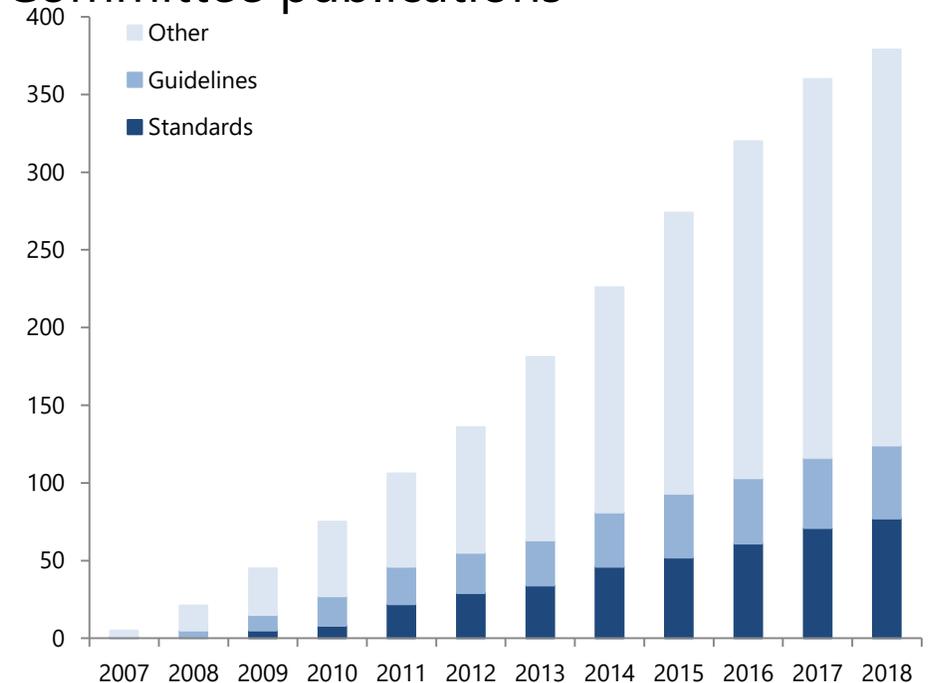
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Proportionality

- Increasingly voluminous and complex regulatory framework
 - More than 350 publications by the Basel Committee since 2007!
- Role of proportionality in implementing Basel framework
 - Range of approaches available for internationally active banks for BCBS member jurisdictions
 - Implementing standards that are broadly consistent with principles of applicable Basel standards for other banks and jurisdictions
- High-level considerations on proportionality (July 2022)

Figure 9: Cumulative number of Basel Committee publications^(a)

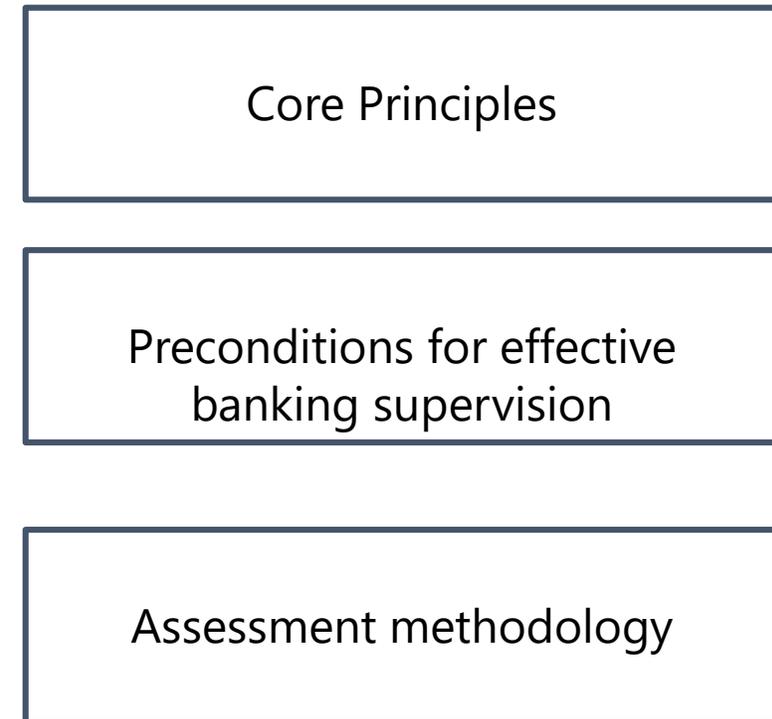


Source: Basel Committee and Secretariat calculations
(a) "Standards" includes proposed and finalised standards. "Guidelines" includes sound practices. "Other" includes implementation and monitoring reports, working papers and newsletters.

Basel Core Principles

- De facto minimum standard for sound prudential regulation and supervision
- Benchmark for assessing quality of supervisory systems
 - Also used in IMF/WB Financial Sector Assessment Programme
- Review of BCPs since previous 2012 update
 - New structural trends
 - Supervisory and regulatory developments
 - Lessons learnt in implementing previous BCPs
 - Extensive consultation with stakeholders

Figure 10: BCP building blocks



Source: Basel Committee and Secretariat calculations
(a) "Standards" includes proposed and finalised standards. "Guidelines" includes sound practices. "Other" includes implementation and monitoring reports, working papers and newsletters.

Evaluation of post-crisis reforms

- Preliminary assessment of impact of Basel III reforms during Covid-19 (July 2021)
 - Higher quality capital and liquidity levels helped banks absorb pandemic shock
 - Banks continued to lend and provide other critical services
 - Banking system complemented monetary and fiscal support measures
- Buffer usability and cyclicalities (October 2022)
 - Positive relationship between lending and banks' capital headroom
 - Little evidence of impact of (non)-usability of liquid asset buffers on lending and market activity
 - Little sign of procyclical effects on lending due to expected credit loss accounting.
- Forthcoming broader assessment of Basel III reforms since 2010

Implementing Basel III

- Good progress made in implementing initial Basel III standards
 - Most members have final rules in place
 - Most members are generally compliant with Basel standards
- Critical importance of implementing outstanding Basel III standards in full and consistent manner, and as soon as possible

Table 1: Overview of BCBS jurisdictional assessments

Overview of jurisdictional assessments					
Jurisdiction	Standard and Grade				
	Risk-based capital	Liquidity coverage ratio (LCR)	Net-stable funding ratio (NSFR)	Large exposures framework (LEX)	G-SIB / D-SIB
Argentina	Compliant	Compliant	Compliant	Compliant	Compliant
Australia	Compliant	Compliant	Compliant	Compliant	Compliant
Brazil	Compliant	Compliant	Compliant	Compliant	Compliant
Canada	Compliant	Compliant	Compliant	Compliant	Compliant
China	Compliant	Compliant	Compliant	Compliant	Compliant
European Union*	Materially non-compliant	Largely compliant	Largely compliant	Largely compliant	Compliant
Hong Kong	Compliant	Compliant	Compliant	Compliant	Compliant
India	Compliant	Largely compliant	Compliant	Compliant	Compliant
Indonesia	Largely compliant	Compliant	Compliant	Compliant	Compliant
Japan	Compliant	Compliant	Compliant	Largely compliant	Compliant
Korea	Largely compliant	Compliant	Compliant	Compliant	Compliant
Mexico	Compliant	Compliant	Compliant	Compliant	Compliant
Russia	Compliant	Compliant	Compliant	Compliant	Compliant
Saudi Arabia	Compliant	Largely compliant	Compliant	Compliant	Compliant
Singapore	Compliant	Compliant	Compliant	Compliant	Compliant
South Africa	Compliant	Compliant	Compliant	Compliant	Compliant
Switzerland	Compliant	Compliant	Compliant	Compliant	Compliant
Turkey	Compliant	Compliant	Compliant	Compliant	Compliant
United Kingdom**	Materially non-compliant	Largely compliant	Compliant	Compliant	Compliant
United States	Largely compliant	Compliant	Compliant	Compliant	Compliant

■ Compliant
 ■ Largely compliant
 ■ Materially non-compliant
 ■ Non-compliant

* Eight EU Member States participate in the Basel Committee: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and Sweden.
 ** Till end-2020, the United Kingdom has been assessed as EU Member State.

Conclusion

- BCBS work programme and strategic priorities in 2023/24
 - Emerging risks and horizon scanning
 - Digitalisation of finance
 - Climate-related financial risks
 - Monitoring and review of existing standards and guidance
 - Implementation and evaluation
- Continued outreach with wide range of external stakeholders

- Questions?