

Basel Committee
on Banking Supervision



Update on the work of the Basel Committee

ASBA-BCBS-FSI High-level meeting on banking supervision

20 October 2022

Outline

- Risk assessment and horizon scanning
- Policy and supervisory responses to emerging risks
- Strengthening supervisory coordination and practices
- Basel III implementation and evaluation

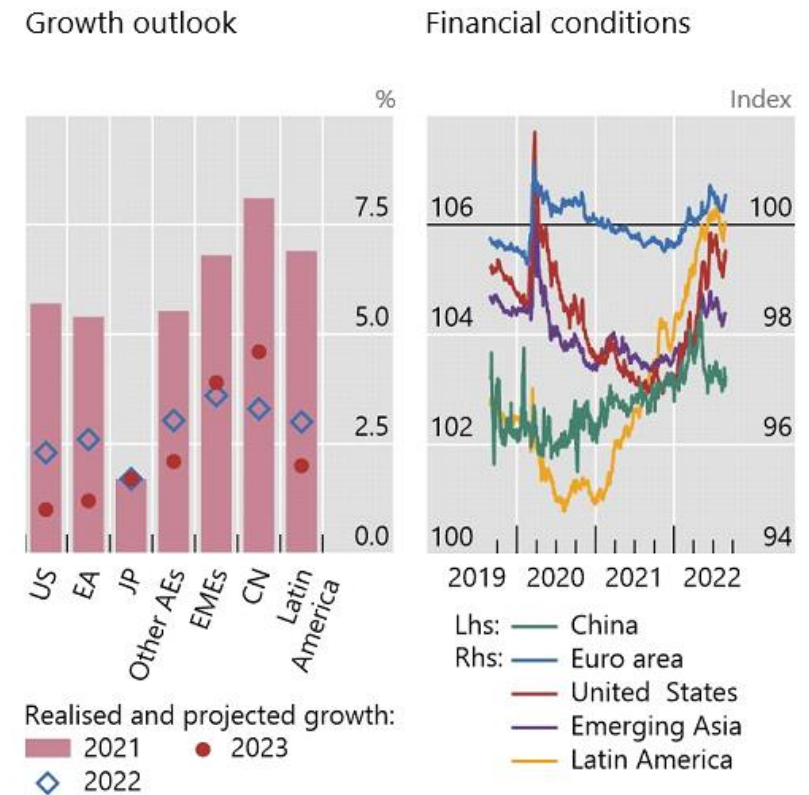
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Risks and vulnerabilities to the global banking system (1)

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

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



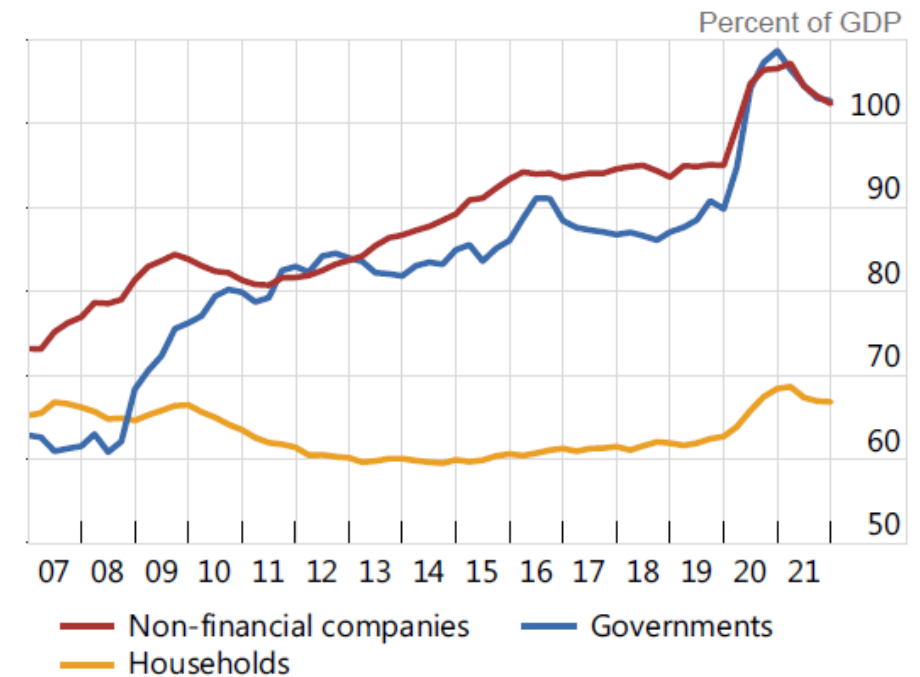
Sources: BIS; Bloomberg; IMF.

(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)

- Asset valuations
 - Snapback risk
 - 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 2: Non-financial sector debt^(a)



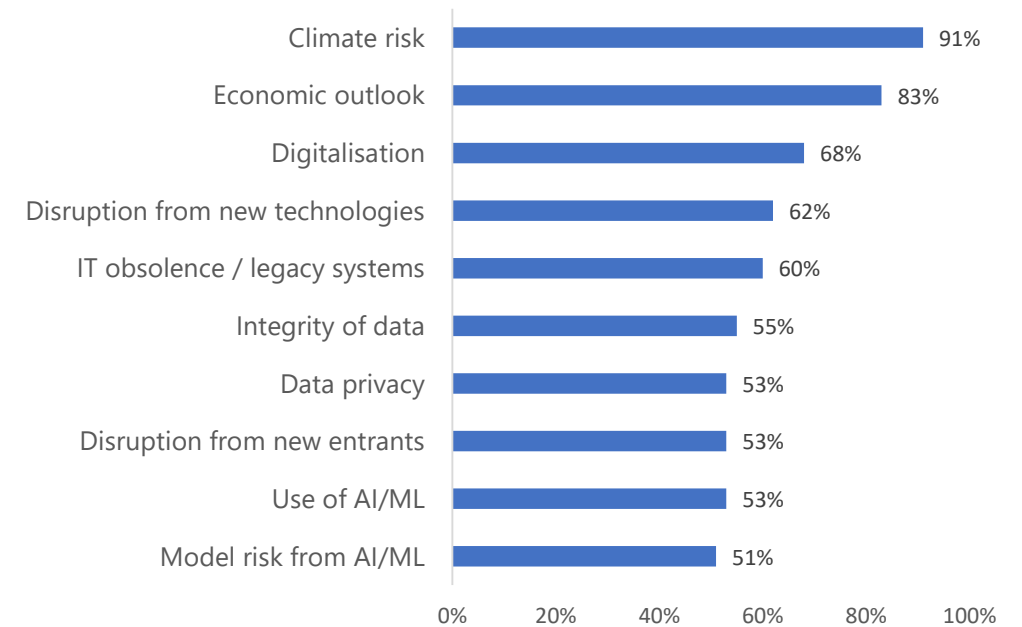
Source: BIS.

(a) For FSB member jurisdictions.

Risks and vulnerabilities to the global banking system (3)

- Interconnections with non-bank financial intermediation
- Digitalisation
- Cyber attacks and operational resilience
- Climate-related financial risks

Figure 3: Top emerging risks for Chief Risk Officers^(a)



Source: EY/IIF.

(a) Based on a survey of 88 financial institutions across 33 jurisdictions.

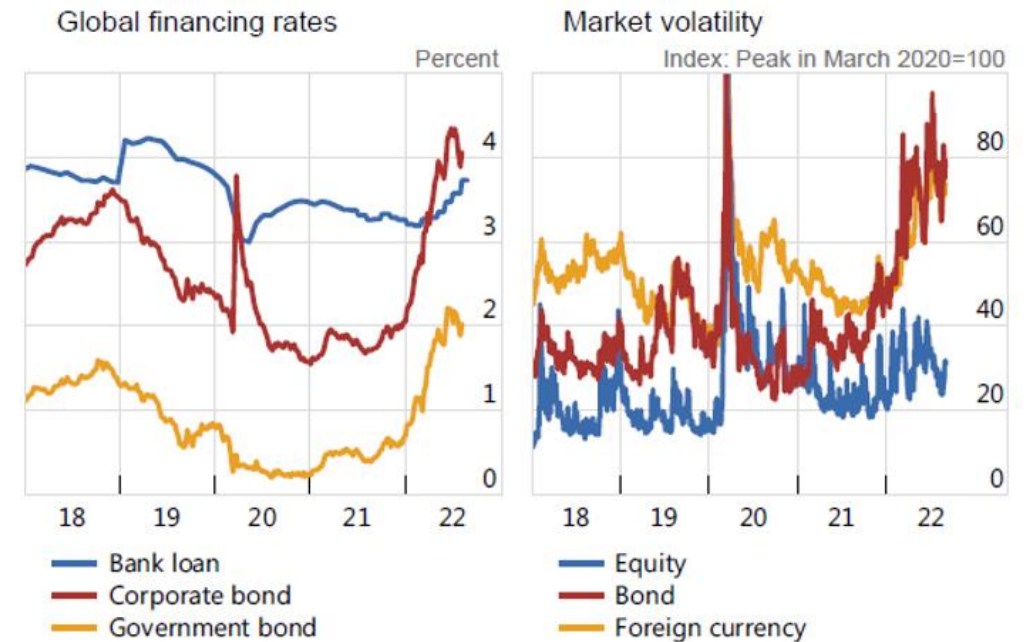
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Snapback risk and inflation

- Deep dive analysis of global banking system resilience
- Headwinds and tailwinds from rising rates
- Risk management and mitigation strategies
- Supervisory responses and guidance
- Prudent build-up and use of buffers to help absorb shocks

Figure 4: Financing rates and market volatility^(a)



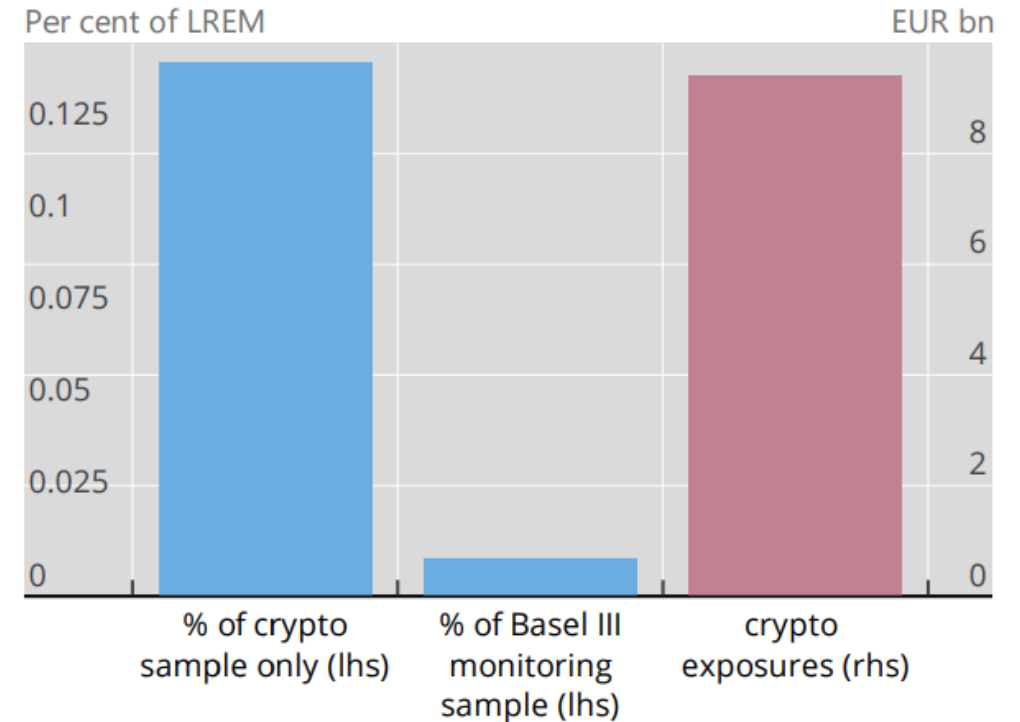
Sources: BIS; Bloomberg; Datastream; Goldman Sachs; JP Morgan.

(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.

Cryptoassets

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

Figure 5: Banks' cryptoasset exposures^(a)

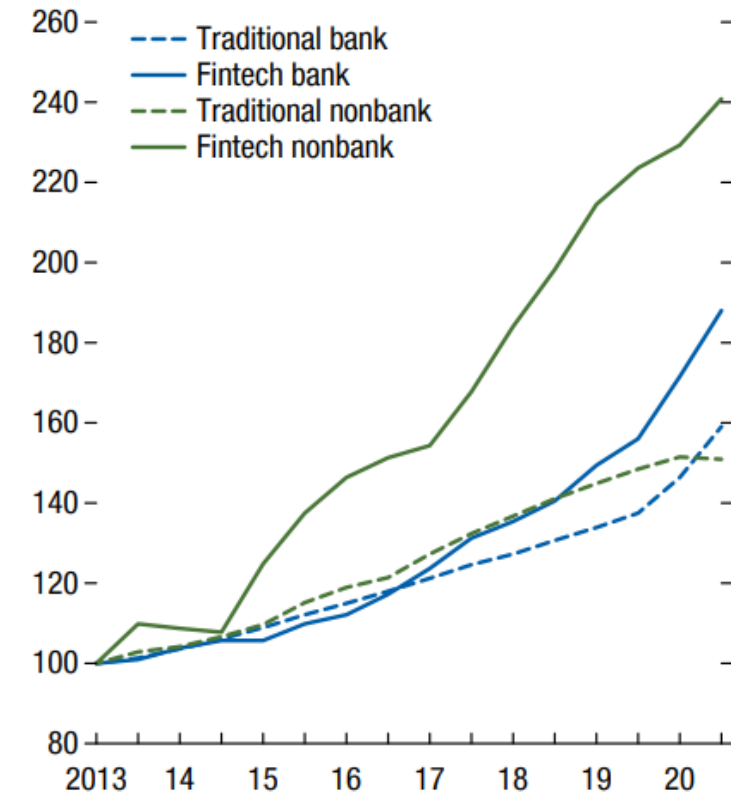


Source: BCBS (2022). Crypto sample comprises 19 internationally active banks – 10 from the Americas, seven from Europe and two from the rest of the world. The wider Basel III monitoring sample comprises 182 banks.

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 impact of digitalisation and disintermediation on banks
 - Supervisory implications of use of big data, artificial intelligence and machine learning

Figure 6: Asset growth of “traditional” financial institutions and fintechs^(a)



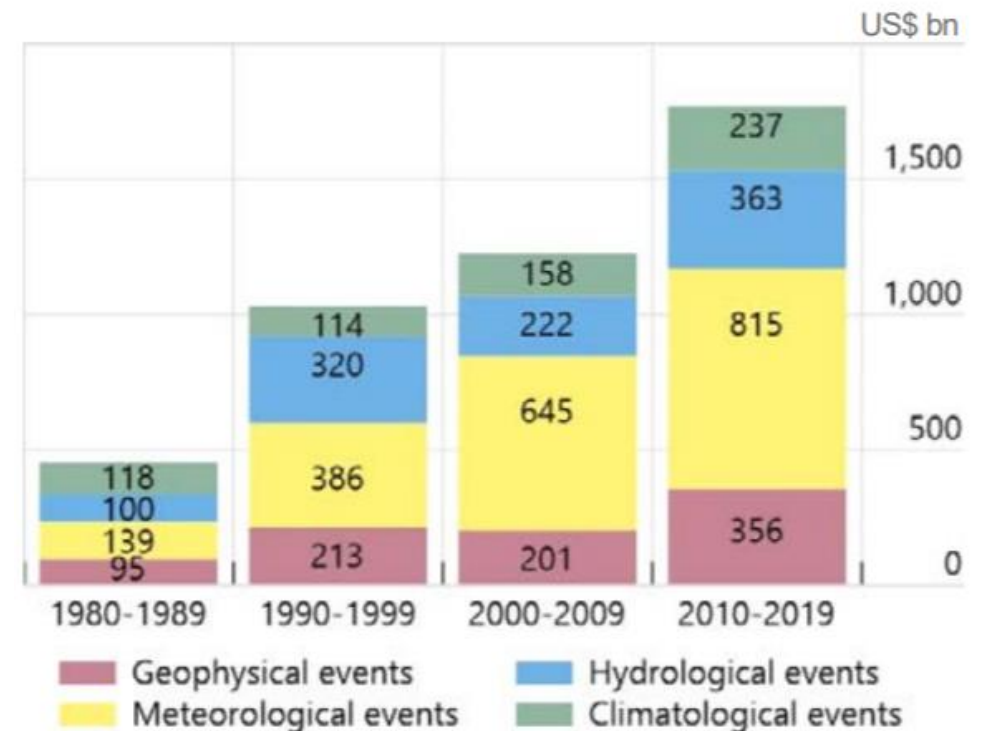
Source: IMF (2021).

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

Climate-related financial risks

- Climate change poses risks to the banking system
 - Physical and transitional risks
 - Cross-border financial stability implications
- Holistic workplan
 - Analytical reports on transmission channels (April 2021)
 - Supervisory principles (June 2022)
 - Gaps in Basel framework – disclosure, supervisory and/or regulatory elements?

Figure 7: Global economic loss from natural catastrophe events

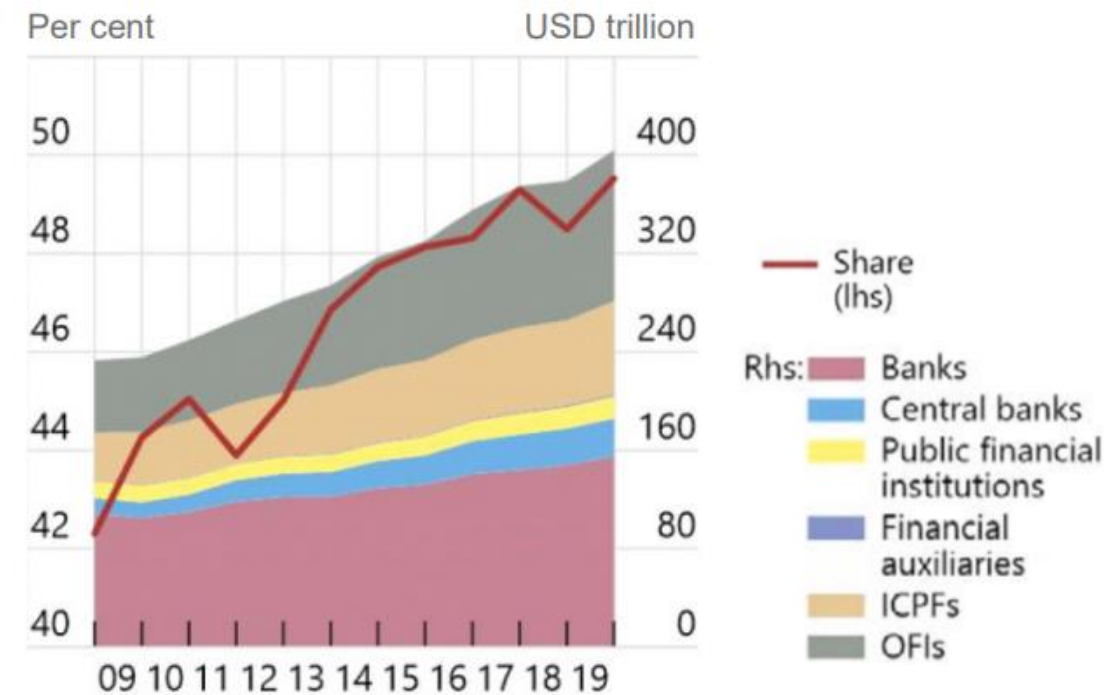


Source: FSB (2020).

Non-bank financial intermediation

- 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

Figure 8: Composition of total financial assets



Source: FSB (2021).

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

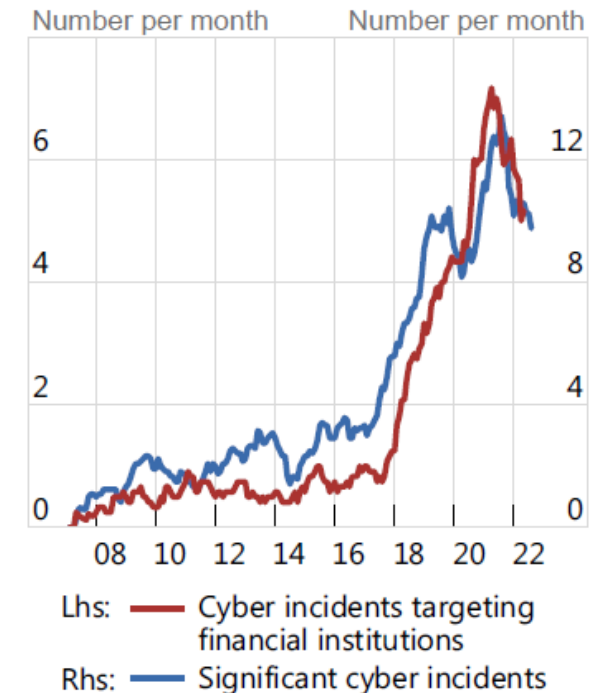
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Operational resilience

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

Figure 9: Cyber incidents targeting financial institutions^(a)



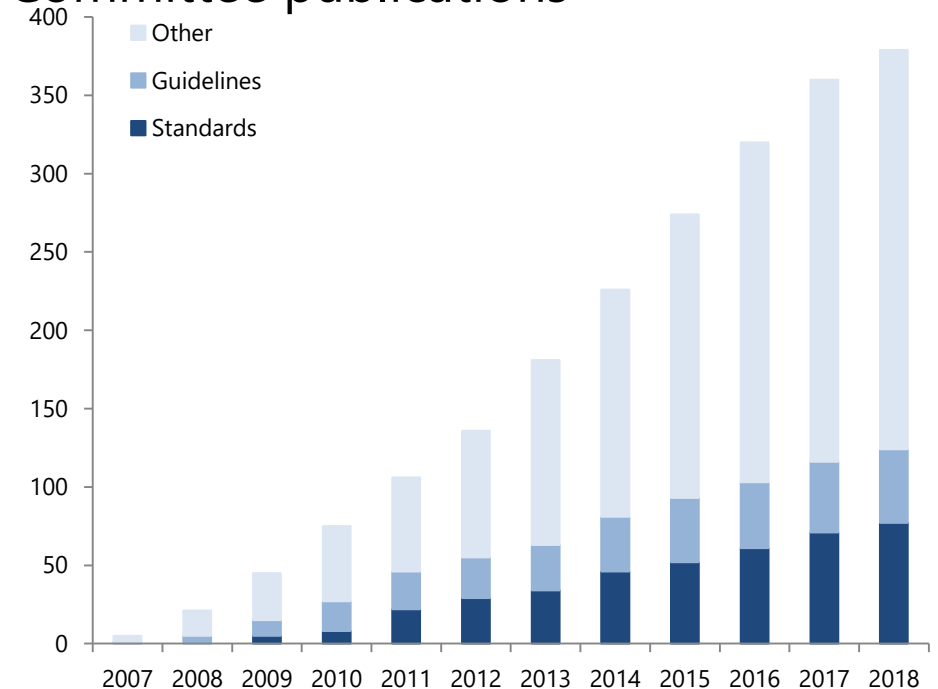
Source: Carnegie Endowment for International Peace and FSB.

(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.

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 10: Cumulative number of Basel Committee publications^(a)



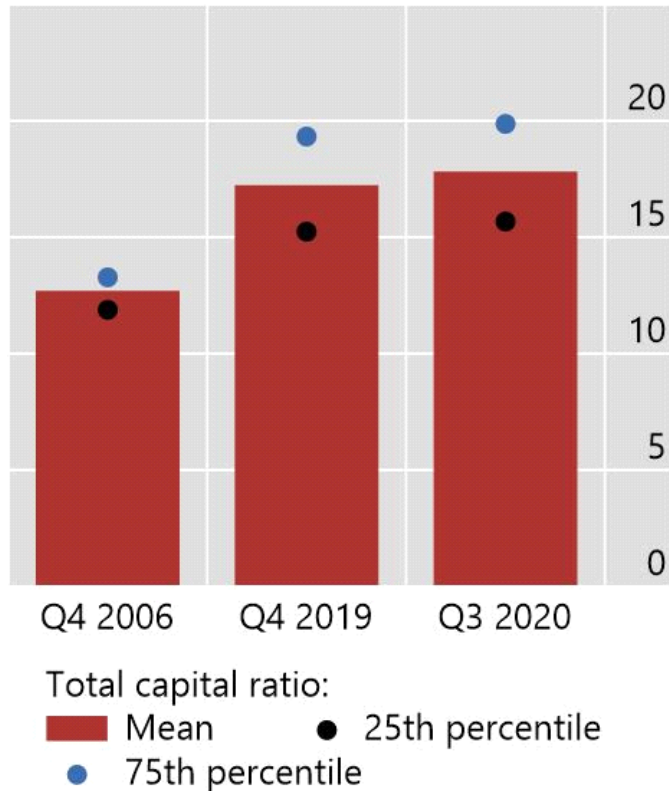
Source: Basel Committee and Secretariat calculations
(a) "Standards" includes proposed and finalised standards. "Guidelines" includes sound practices. "Other" includes implementation and monitoring reports, working papers and newsletters.

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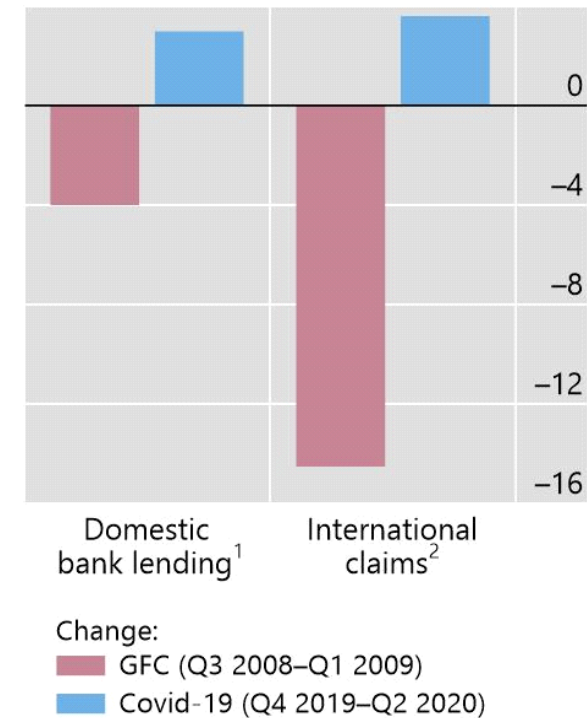
Experience to date: bank resilience and lending has held up to date

Figure 12: Change in banks' capital ratios⁽¹⁾



Source: BIS.
 (1) Total capital ratio for a sample of 82 major banks from 25 jurisdictions

Figure 13: Change in bank lending volume



Source: BIS.
 (1) Bank credit to the private non-financial sector (for 44 reporting countries) (2) Based on intermediate counterparty basis, for all BIS reporting countries and all counterparty sectors

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
 - Risk assessment and horizon scanning
 - Policy and supervisory responses to emerging risks
 - Strengthening supervisory coordination and practices
 - Basel III implementation
- Continued outreach with wide range of external stakeholders

- Questions?