

Basel Committee
on Banking Supervision



Regulatory reforms of the financial system – Are we done yet?

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Fourth ESRB annual conference, 27 September 2019, Frankfurt

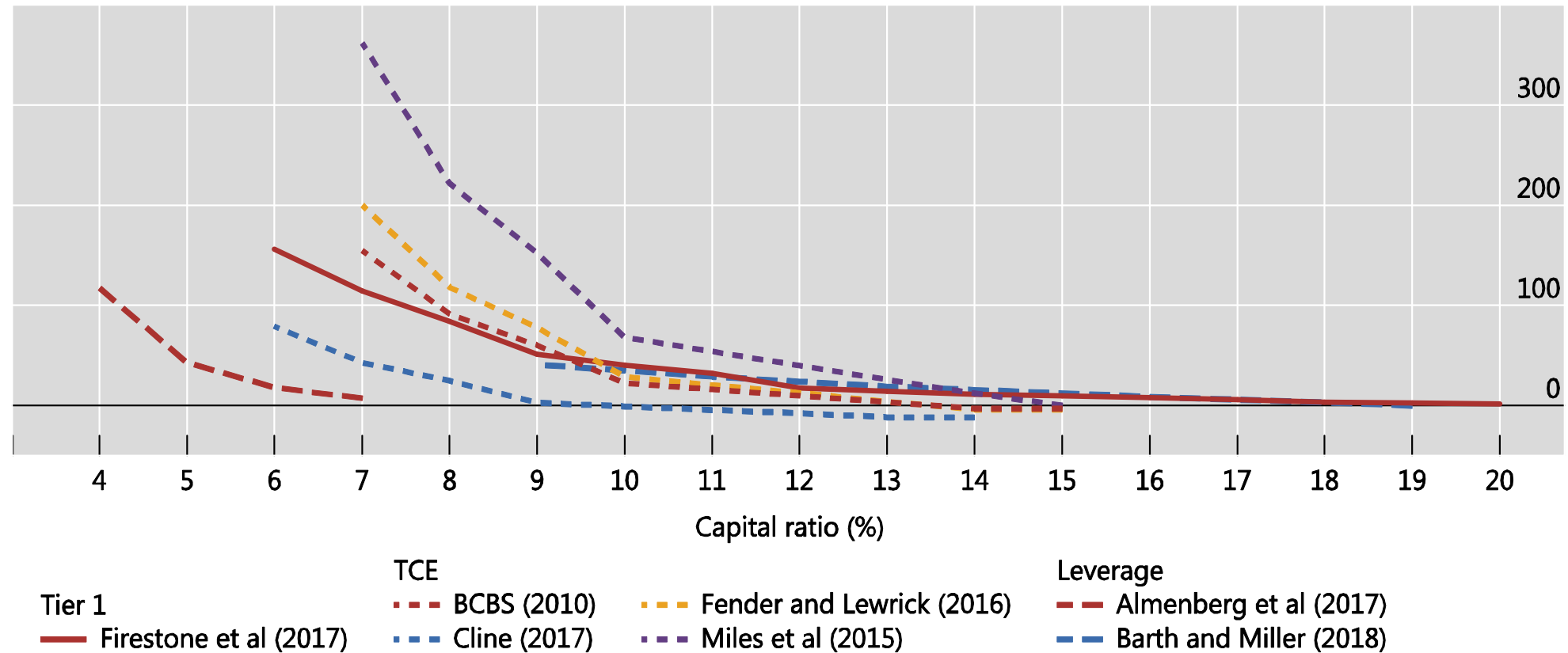
The Basel Committee's post-crisis reforms (Basel III) and additional global bank reforms by the FSB are wide-ranging and comprehensive...

- Higher minimum capital requirements
- Revised definition of capital
 - Greater focus on truly-loss absorbing capital
- Introduction of macroprudential buffers
 - Capital conservation buffer, SIB buffers, countercyclical capital buffer
- Comprehensive revisions to risk-weighted framework
 - Credit risk, counterparty credit risk, securitisation, market risk, operational risk
 - Exposures to CCPs, equity investment in funds, 'step-in' risk and non-banks
- Leverage ratio requirement
 - Minimum and G-SIB buffer
- Large exposures framework
- Liquidity Coverage Ratio
- Net Stable Funding Ratio
- Enhanced disclosures requirement
- Total loss-absorbing capacity requirements (FSB)
- Key Attributes of Effective Resolution Regimes for Financial Institutions (FSB)

...and the net macroeconomic benefits of Basel III are positive ...

Chart 1: Net marginal macroeconomic benefit of capital

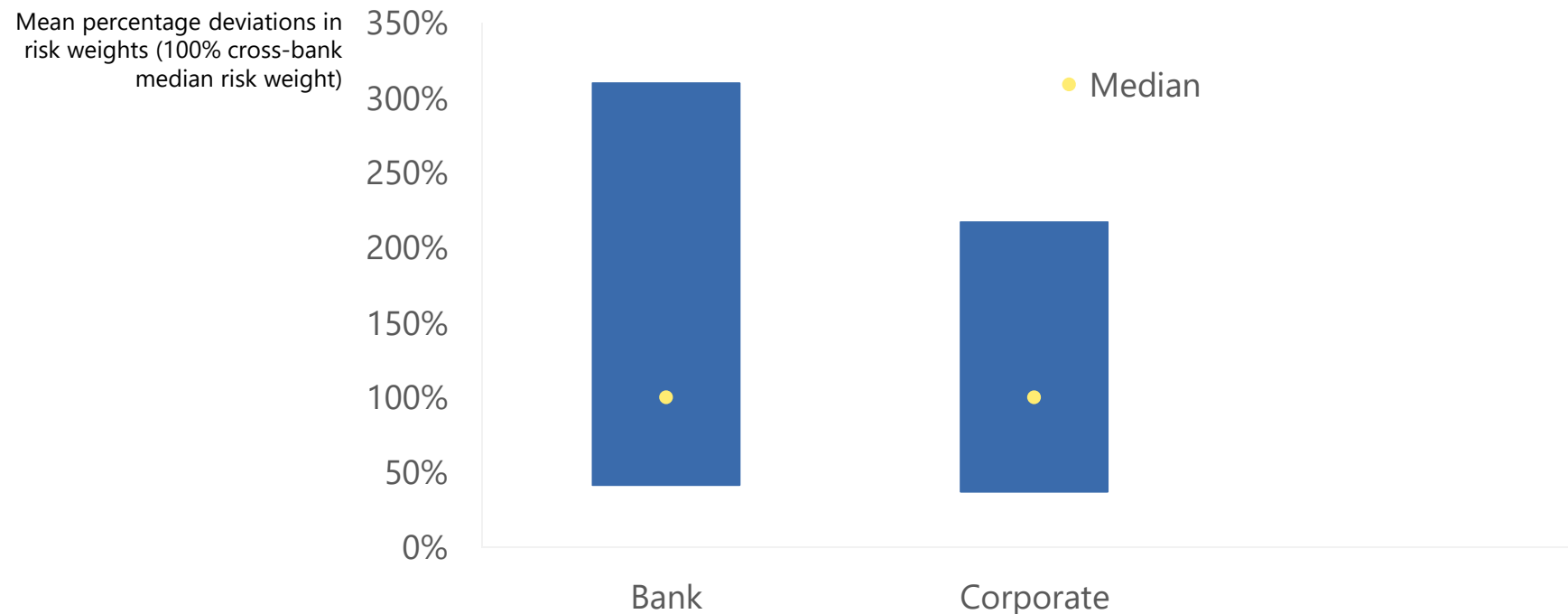
Net marginal benefits (discounted,
annual GDP basis points)



Source: Basel Committee on Banking Supervision (2019): "The costs and benefits of bank capital – a review of the literature", June.

...but the benefits of Basel III require implementation and continuous supervision of standards...

Chart 2: Excessive variability in risk-weighted assets: internally-modelled capital requirements for hypothetical portfolios in the banking book^(a)



Source: Basel Committee on Banking Supervision.

(a) The chart shows the normalised distribution of risk weights (with 100% representing the cross-bank median risk weight as the benchmark) reported by banks under the Committee's banking book RWA variability study.

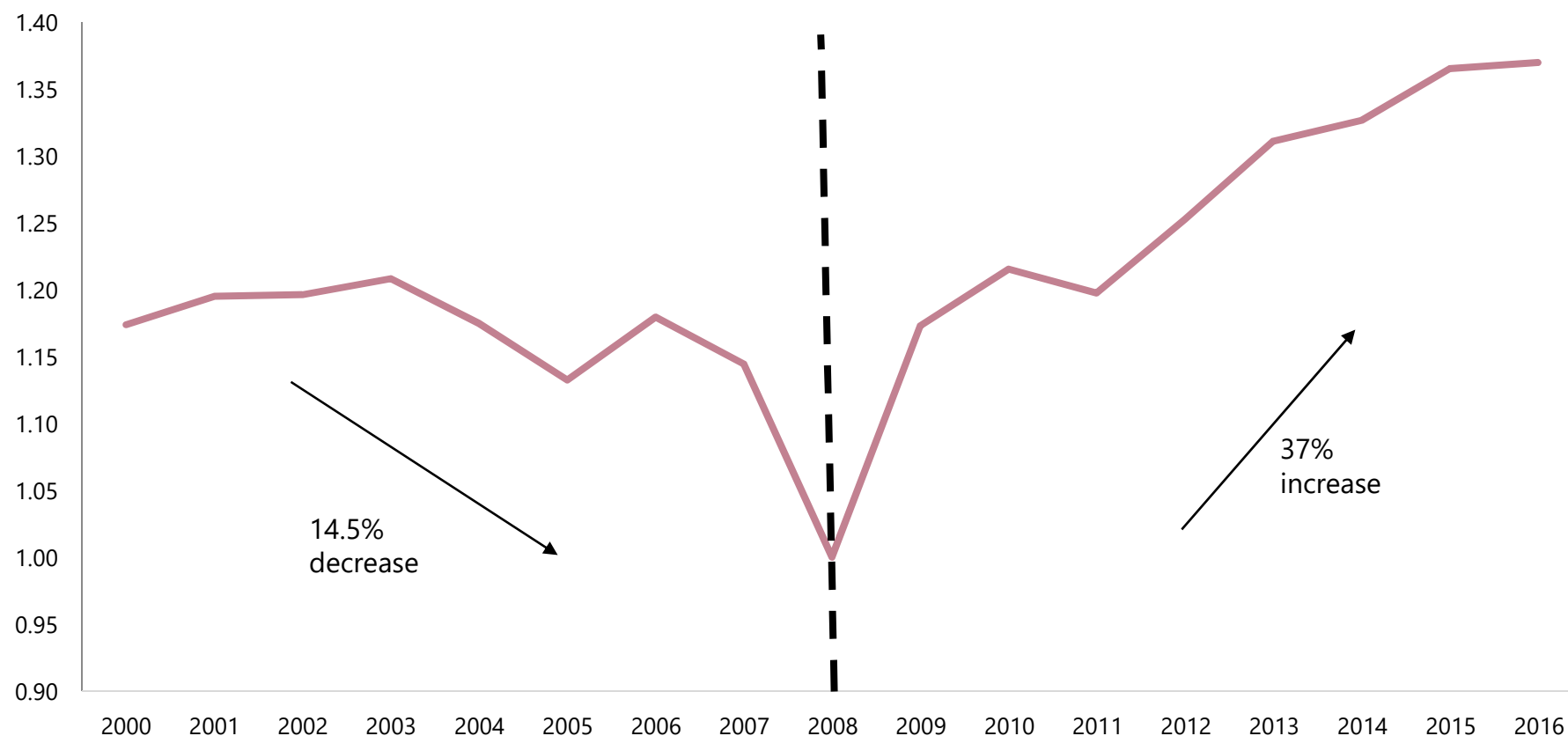
...and require a comprehensive evaluation of the impact and effectiveness of post-crisis reforms...

Table 1: Evaluations underway by Basel Committee

Evaluation of individual reforms			
(1) Definition of capital	(2) Counterparty credit risk framework	(3) Securitisation framework	(4) Liquidity standards
(5) Leverage ratio framework	(6) Credit risk framework	(7) Credit valuation adjustment framework	(8) Market risk framework
(9) Operational risk framework	(10) Large exposures framework	(11) Output floor	
Interactions and coherence			
(12) Interactions between capital and liquidity metrics			
Broader impact			
(13) Macroeconomic impact of capital and liquidity requirements			

...while avoiding the well-trodden 'regulatory cycle' and not forgetting the lessons of the crisis....

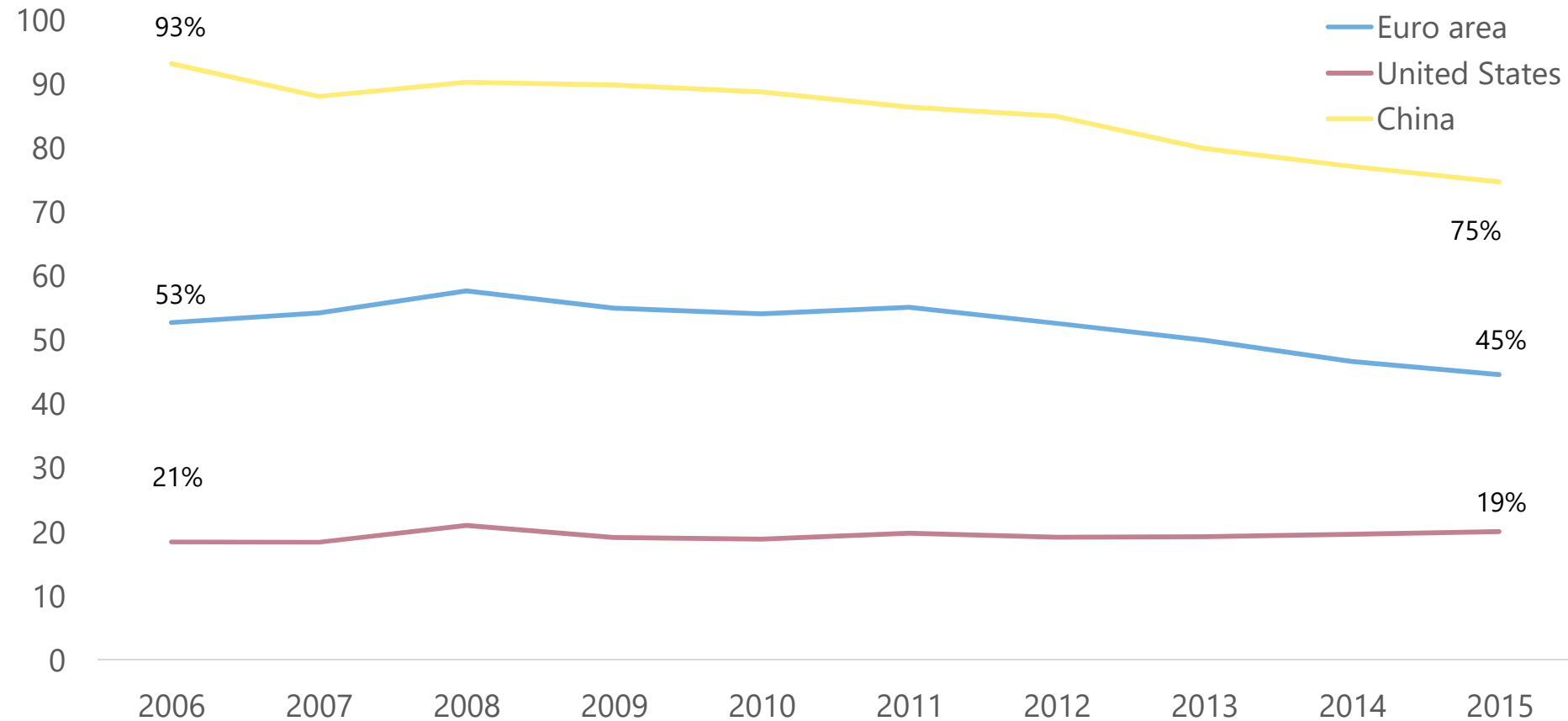
Chart 3: Simple leverage ratios over time (normalised, base = 2008)



Source: FitchConnect and Secretariat calculations. Chart shows median simple leverage ratios for an unbalanced average sample of 38 large European and US internationally-active banks. Simple leverage ratio defined as equity divided by total assets.

...and remaining vigilant about risks emanating from other parts of the financial system...

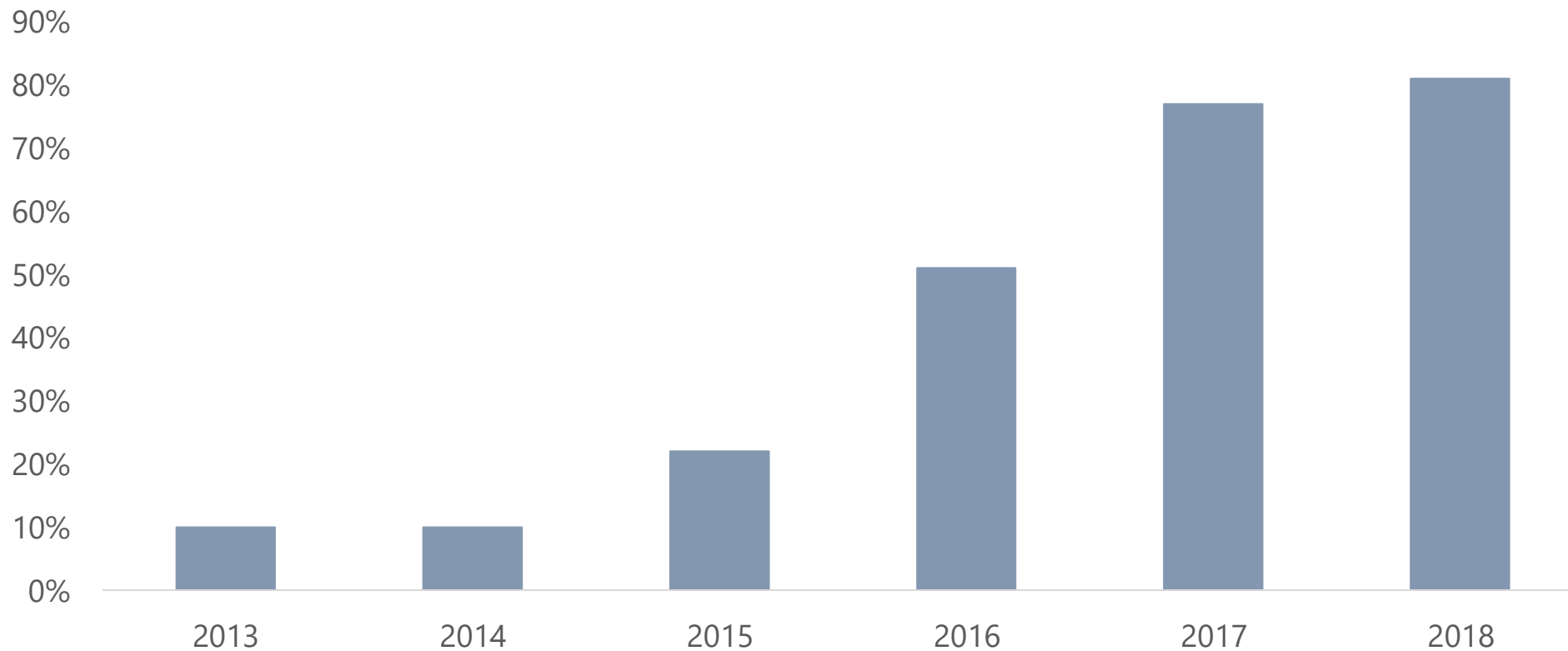
Chart 4: Share of banking system assets in total financial institution assets (%)



Source: Committee on the Global Financial System (2018): "Structural changes in banking after the crisis", and Secretariat calculations.
As a share of assets of financial corporations, excluding the central bank. Financial assets when available, otherwise total assets.

...and emerging risks and structural changes to the banking system such as cyber risk, financial technology and crypto-assets

Chart 5: Percentage of bank Chief Risk Officers highlighting cyber risk as a “top issue requiring the most attention”^(a)



Source: EY annual global bank risk management surveys and Secretariat calculations

(a) Sample size varies over time: in 2018, it comprised 74 financial institutions across 29 countries