Box 7.1

THE BASEL COMMITTEE ON BANKING SUPERVISION AND THE CHALLENGE OF COVID-19

During 2020, a large part of the activity of the Basel Committee on Banking Supervision (BCBS) was focused on coordinating the international response to the impact of COVID-19 on the banking sector. In light of the sudden and swift global spread of the pandemic in the early months of the year and its increasing effects on economic activity, the Committee agreed a series of regulatory relief measures and modified its work plan to give priority to monitoring possible risks and vulnerabilities and adopting measures.

In this setting, the Committee's response had three objectives:

— Ensuring that banks continued to lend to creditworthy households and businesses, thereby mitigating part of the economic impact.

— Safeguarding the financial and operational resilience of the global banking system.

— Ensuring that banks and authorities had sufficient operational capacity to address the most immediate financial stability priorities.

Governments in many jurisdictions have approved extraordinary support measures to alleviate the economic effects of the pandemic, such as State guarantee schemes and moratoria on the payment of credit obligations. Against this backdrop, the Committee issued technical guidance to ensure that these measures, and their impact on reducing risk, were reflected in banks' capital requirements, thus contributing to achieving their objectives.

At the same time, and to avoid excessive procyclicality, the Committee announced that it expected banks to use the flexibility inherent in expected loss accounting frameworks. It also provided greater flexibility in the transitional arrangements which provide for deferring the impact of the expected loss framework on regulatory capital.

A key aspect in the pursuit of these aims has been the decision by the Group of Central Bank Governors and Heads of Supervision (GHOS) to defer the implementation of the outstanding Basel III standards by one year, up to January 2023, so that banks and supervisors have additional operational capacity to respond to the immediate impact of COVID-19. Both the GHOS and the BCBS have reiterated their expectations of a full, timely and consistent implementation of all Basel standards, based on the revised timeline.

Financial institutions now have tools they did not have in previous situations of economic stress: capital and liquidity buffers. These buffers are designed with the dual aim of ensuring that banks have loss-absorbing capacity without breaching their minimum requirements and of maintaining the flow of credit to the real economy by lending to creditworthy customers. Since the start of the crisis, the Committee has reiterated that a measured drawdown of existing buffers is in keeping with these objectives and indicated that supervisors will provide sufficient time for banks to restore these buffers, taking account of market and bank-specific conditions.

The impact of COVID-19 has accelerated some trends observed in recent years and underlined the importance of monitoring structural risks. The GHOS tasked the BCBS with continuing to pursue a coordinated response to the crisis, to preserve a level playing field and to avoid regulatory fragmentation, through:

— An ongoing monitoring and assessment of risks and vulnerabilities, together with the sharing of information and experiences among supervisors.

— The promotion of the use of the flexibility existing in the Basel framework, where relevant.

— The monitoring of the exceptional measures adopted by members, to ensure they are consistent with the objectives of the Basel framework and are unwound in a timely manner.

— The adoption, by the Committee, of additional measures, where necessary.