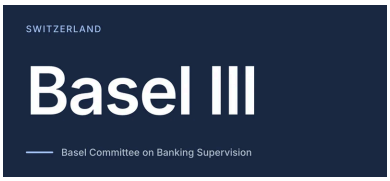
SmartSuite

Framework / Financial Services Regulation / Other

Basel III – Finalization (2017)

Basel III: Finalising post-crisis reforms (BCBS, December 2017) revises credit, CVA, and operational risk capital, adds a 72.5% output floor, and finalizes the leverage ratio.



What it is

Basel III: Finalising post-crisis reforms is the standard the Basel Committee on Banking Supervision (BCBS) published on 7 December 2017 to complete its post-crisis revisions to the bank capital framework. It revises the standardized and internal ratings-based approaches for credit risk, the credit valuation adjustment (CVA) framework, and operational risk, where a single standardized approach replaces all existing Basel II approaches. It also adds an output floor on risk-weighted assets and finalizes the leverage ratio, including a buffer for global systemically important banks (G-SIBs). Its key objective is to reduce excessive variability of risk-weighted assets (RWA).

At a glance

PUBLISHER
Basel Committee on Banking Supervision (BCBS)

TYPE
Regulation

VERSION
Basel III: Finalising post-crisis reforms (December 2017)

EFFECTIVE
1 January 2023 (deferred from 1 January 2022); output floor phased in to 72.5% on 1 January 2028

DOMAIN
Financial Services Regulation

FAMILY
Other

REGION
Switzerland

INDUSTRY
Financial Services

ADOPTION MODEL
Regulatory Compliance

IMPLEMENTATION COMPLEXITY
Very High

Source: bis.org/publications/201712-standards-basel-iii-finalising-post-crisis-reforms

Why it matters

- **Less RWA variability** More risk-sensitive standardized approaches for credit and operational risk, and constraints on internally modeled approaches, make banks' capital ratios more comparable.
- **A capital floor** Banks calculate RWA as the higher of the total from their approved approaches and 72.5% of the total calculated only with standardized approaches.
- **One operational risk method** A standardized approach based on the Business Indicator and the bank's loss history replaces all existing Basel II operational risk approaches.
- **A non-risk-based backstop** The leverage ratio is finalized, and G-SIBs must also meet a leverage ratio buffer set at 50% of their higher-loss absorbency requirement.

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How SmartSuite supports Basel III

Requirement library

Record the seven parts of the standard as requirements with owners, jurisdictional implementation status, and effective dates.

Implementation timeline

Track the deferred dates, the output floor phase-in, and the national rules that apply in each jurisdiction.

Operational risk loss data

Log operational loss events and key risk indicators in Enterprise Risk Management to support the loss history behind the Internal Loss Multiplier.

Model and calculation controls

Document the controls, reviews, and approvals around RWA, output floor, and leverage ratio calculations.

Internal audit and testing

Plan and record testing of the calculation processes and data, and track remediation to closure with Internal Audit Management.

Supervisory reporting

Use Enterprise Reporting to assemble status, open issues, and evidence for supervisors and the Board.

Common framework mappings

BCBS PSMOR 2021 | BCBS Operational Resilience Principles | COSO ERM 2017 | ISO 31000:2018

Official resources

Basel III: International Regulatory Framework for Banks

Defines the Basel III standards for banking regulation to enhance global financial stability.

bis.org/bcbs/basel3.htm

Frequently Asked Questions on Basel III Monitoring

Provides answers to common questions about the implementation and monitoring of Basel III.

bis.org/bcbs/publ/d443.htm

Basel III Monitoring Report

Describes data and analyses related to the monitoring of Basel III implementation.

bis.org/bcbs/publ/d486.htm

Frequently asked questions

What does the Basel III 2017 finalization change?

It revises the standardized and internal ratings-based approaches for credit risk, the CVA risk framework, and operational risk, adds an output floor on risk-weighted assets, and finalizes the leverage ratio, including a G-SIB buffer. Its aim is to reduce excessive variability of risk-weighted assets.

What is the Basel III output floor?

Banks must calculate RWA as the higher of the total from the approaches they are approved to use and 72.5% of the total calculated with the standardized approaches. The transition started at 50% and, after the March 2020 deferral, reaches 72.5% on 1 January 2028.

When did the Basel III 2017 standards take effect?

The Basel Committee set 1 January 2022 and in March 2020 deferred implementation by one year to 1 January 2023. Jurisdictions adopt the standards through national rules, so effective dates for a given bank depend on its regulator.

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How does the standardized approach for operational risk work?

It multiplies the Business Indicator, a financial-statement-based proxy for operational risk, by marginal coefficients of 12%, 15%, and 18% by bucket, then scales the result with an Internal Loss Multiplier based on the bank's average historical losses. It replaces all existing Basel II operational risk approaches.

Is Basel III legally binding?

Not directly. The Basel Committee does not have formal supranational authority, and its decisions do not have legal force. Its members commit to implement the standards, and each jurisdiction does so through its own laws and regulations.

License included / downloadable: Yes Basel III standards are published by the Basel Committee on Banking Supervision and are publicly available through the Bank for International Settlements.

Full framework page and mappings: smartsuite.com/frameworks/basel-iii-finalisation-2017