Basel Committee
on Banking Supervision

Report to G20 Leaders on monitoring implementation of Basel III regulatory reforms

August 2013

BANK FOR INTERNATIONAL SETTLEMENTS

This publication is available on the BIS website (www.bis.org).

ISBN 92-9131- 961-9 (print)

ISBN 92-9197- 961-9 (online)

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Summary

This is the fourth report from the Basel Committee on Banking Supervision[1] to update G20 Leaders on progress in implementing the Basel III regulatory reforms. The last update was issued in April 2013.[2] The report provides an overview of the Committee's Regulatory Consistency Assessment Programme (RCAP), which includes (i) monitoring the progress of Basel Committee members in adopting the globally agreed Basel III standards; and (ii) assessing the consistency of national or regional banking regulations with the global Basel III standards and analysing the outcomes that are produced by those regulations. The report also includes an overview of the progress made in finalising outstanding components of the Basel III regulatory reforms.

Of the 27 jurisdictions that comprise the Basel Committee, 25 have now issued the final set of Basel III based capital regulations. Indonesia and Turkey have draft rules in place and efforts are under way to finalise them. Most recently, the European Union and the United States issued final regulations in June and July 2013, respectively. In addition, a number of members have begun to move towards introducing regulations for the liquidity and leverage ratios, as well as the requirements that apply to firms designated as global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs).[3]

The Basel Committee's periodic monitoring of Basel III's quantitative impact indicates that internationally active banks continue to build capital, and appear well placed to meet the full set of fully phased-in minimum Basel III capital requirements ahead of the 2019 deadline.[4] In the six months to December 2012, the average Common Equity Tier 1 (CET1) capital ratio of large internationally active banks rose from 8.5% to approximately 9% of risk-weighted assets. In addition, the aggregated capital shortfall of those banks that still have capital ratios below the fully phased-in 2019 CET1 requirements continues to decrease: the shortfall is now well below half the aggregate annual profits of the industry (which in 2012 totalled over €400 billion). Despite this progress and in the light of the current challenging global economic environment, banks and national authorities must remain particularly vigilant to actual and potential deterioration in banks' asset quality in order to ensure further improvement in capital adequacy. Adjustments may also be required as the process of implementation of finalised capital regulations deepens further.

The Committee's assessment programme of Basel III implementation remains on track. The Committee recently concluded an assessment of the consistency of Switzerland's capital regulations with the Basel III standards, and is currently assessing China, Brazil and Australia. It is encouraging to note

1 The Basel Committee on Banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Committee's governing body is the Group of Central Bank Governors and Heads of Supervision, which is comprised of central bank Governors and (non-central bank) heads of supervision from member countries. The Committee usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located.

2 The April report and previous updates to the G20 are available at www.bis.org/bcbs/implementation/bprl1.htm.

3 The agreed start date for disclosure of the leverage ratio and the phase-in of the Liquidity Coverage Ratio is 1 January 2015. The phase-in of the G-SIB and D-SIB requirements is from 1 January 2016.

4 The Committee's quantitative impact studies are based on a sample of over 200 banks, approximately half of which are large internationally active banks with Tier 1 capital in excess of €3 billion. The most recently published Basel III monitoring report is available at www.bis.org/publ/bcbs243.htm.

that those jurisdictions that have undergone an assessment of their final rules have so far promptly rectified identified issues and are continuing with regulatory reforms. The RCAP process has thus far helped improve member jurisdictions' consistency with the Basel III standards. As a result, regulations to adopt and implement Basel III standards are stronger than would otherwise have been the case absent the Committee's efforts at monitoring and assessing implementation. However, the Committee has also published studies of banks' calculations of risk-weighted assets in both the banking and trading books. The results revealed material variations in the measurement of risk-weighted assets across banks, even for identical hypothetical test portfolios. The Committee is actively considering possible policy reforms to improve the comparability of outcomes. In doing so, it needs to ensure an optimal balance between the risk sensitivity of the framework and its complexity.

The Committee, in accordance with agreed timelines, continues to work to finalise a few remaining policy-related elements of the Basel III framework. Timely adoption of Basel III standards, ensuring good quality implementation of national regulations that are consistent with the globally-agreed Basel III standards, and improving the reliability of risk-weighted asset calculations remain key priorities of the Committee over the medium term.

Progress report on Basel III implementation

Full, timely and consistent implementation of Basel III remains fundamental to building a resilient financial system, fostering public confidence in regulatory ratios and providing a level playing field for internationally active banks. To aid in the adoption of Basel III regulatory standards and their implementation, the Basel Committee has put in place the Regulatory Consistency Assessment Programme (RCAP) to monitor, review and report on Basel III implementation. The programme broadly consists of two parts: (i) *monitoring*, which includes the monitoring of standards adoption by member jurisdictions and of banks' progress in raising capital and liquidity buffers to meet the new minimum standards; and (ii) *assessments and review studies*, which include the assessments of local regulations and their consistency with the Basel standards, and reviews of banks' calculations of capital ratios, risk-weighted assets and other regulatory outcomes.

This report provides an update on the work done by the Basel Committee since the previous update issued in April 2013. In particular, the report outlines the progress made on: (i) the adoption of rules by member and non-member jurisdictions; (ii) the assessments of regulatory consistency and outcomes; and (iii) the policy reform of outstanding elements of the Basel framework.

(i) Adoption of Basel III standards

Member jurisdictions have made considerable progress since the last report was published in April 2013. More details regarding the implementation status of each member jurisdiction can be found in the tables in Annex 1, which includes summary information about the next steps and the implementation plans being considered.[5]

Capital

Basel II

Of the 27 Basel Committee member jurisdictions, 24 have implemented Basel II fully. The United States, which is one of the three jurisdictions yet to fully implement Basel II, has issued final regulations on Basel II; however, its largest banks are still on parallel run for implementing the advanced approaches. The remaining two jurisdictions (Argentina and Russia) have also initiated the process to complete the implementation of Basel II.

[5] A four-scale classification is used for the status of adoption of Basel regulatory rules: (1) Draft regulation not published: no draft law, regulation or other official document has been made public to detail the planned content of the domestic regulatory rules. This status includes cases where a jurisdiction has communicated high-level information about its implementation plans but not detailed rules; (2) Draft regulation published: a draft law, regulation or other official document is already publicly available, for example for public consultation or legislative deliberations. The content of the document has to be specific enough to be implemented when adopted. (3) Final rule published: the domestic legal or regulatory framework has been finalised and approved but is still not applicable to banks; and (4) Final rule in force: the domestic legal and regulatory framework is already applied to banks.

Basel 2.5

The number of member jurisdictions who have fully implemented Basel 2.5 is 22. Of the other five members, the United States has issued the remaining part of the rules, which will come into force in 2014. Argentina, Indonesia, Mexico and Russia have either partially adopted Basel 2.5 or have initiated steps to do so.

Basel III

Of the 27 member jurisdictions, 11 have now issued final Basel III capital rules that are legally in force. The number of members that have issued final rules but not yet brought them into force has increased to 14 (this includes Argentina, Brazil, Korea, Russia, the United States and the nine EU member states that are members of the Basel Committee).[6] The two remaining member jurisdictions (Indonesia and Turkey) have issued draft rules.

Leverage

The Basel Committee is currently in the process of finalising the details of the Basel III leverage ratio standard. The agreed start date for banks to begin disclosing their leverage ratios is 1 January 2015 (see also Section (iii) below). Some member jurisdictions have already initiated steps in preparation for the introduction of this new requirement. This should assist in prompt implementation once a final international standard is agreed.

Liquidity

Regarding the adoption of regulations relating to the Liquidity Coverage Ratio, 11 member jurisdictions have issued final rules (South Africa, Switzerland and EU member states), while four member jurisdictions have started the implementation process by issuing draft rules (Australia, Hong Kong SAR, India and Turkey). The agreed start date for the phase-in of liquidity requirements is 1 January 2015.

Systemically important banks

With regard to the global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs) requirements, only two member jurisdictions (Switzerland and Canada) have so far issued final regulatory rules and begun to enforce them. Ten member jurisdictions have issued the final set of regulations, which are not yet in force (South Africa and EU member states). The remaining member jurisdictions have not yet issued draft rules. The agreed start date to phase in the requirements is 1 January 2016. However, to enable timely implementation of the requirements, the Committee has agreed that national jurisdictions will adopt official regulations/legislation consistent with the Basel III standards that establish the reporting and disclosure requirements by 1 January 2014.

Non-Basel Committee/non-EU jurisdictions

Several non-Basel Committee member jurisdictions are reporting the adoption and implementation of Basel II, 2.5 and III standards. In July 2013, the Financial Stability Institute (FSI) issued its annual progress report on Basel adoption in jurisdictions that are neither members of the Basel Committee nor members

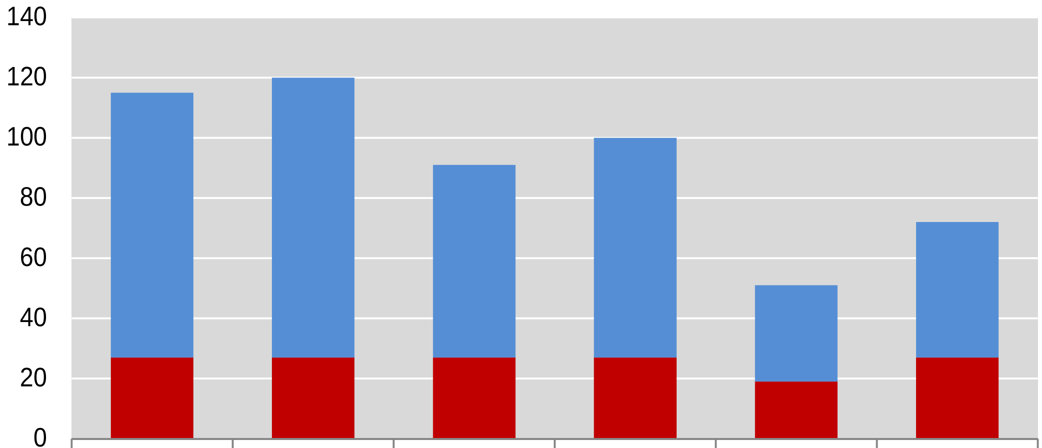
[6] These are Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the United Kingdom.

of the EU.[7] The report updates the FSI's previous progress report and provides results as of end-May 2013.[8]

The FSI survey questionnaire was sent to over 100 non-Basel Committee/non-EU jurisdictions, and 74 jurisdictions responded. Compared to 2012, there has been significant progress in the efforts to adopt Basel capital standards (see Annex 2 for detailed information). Among the surveyed jurisdictions, 54 have either implemented Basel II or are in the process of implementation, 16 have implemented Basel 2.5 or are in the process of implementation, and 26 have implemented Basel III or are in the process of implementation.

Surveys on Basel II and III implementation*

Graph 1



	2012	2013	2012	2013	2012	2013
Others**	88	93	64	73	32	45
BCBS	27	27	27	27	19	27

Responses / information from jurisdictions | Basel II*** implemented/in process of implementation | Basel III*** implemented / in process of implementation

* Sources: Financial Stability Institute and Basel Committee on Banking Supervision.

** Including non-Basel Committee EU jurisdictions.

*** A jurisdiction that has implemented at least one subsection of Basel II/III is deemed to be in the process of implementation.

[7] *FSI Survey - Basel II, 2.5 and III Implementation*, July 2013, www.bis.org/fsi/fsipapers.htm.

[8] For the previous FSI progress report, see: *FSI Survey – Basel II, 2.5 and III Implementation*, July 2012, www.bis.org/fsi/fsipapers.htm.

(ii) Assessing consistency and outcomes

As part of the RCAP, the Committee has started to assess in detail the consistency of local regulations implementing the Basel III risk-based capital standards.[9] The assessments cover the substance of the local regulations, but also their form, ie whether the rules are laid down in regulatory instruments that are binding from a regulatory and supervisory perspective.

In 2012, the Basel Committee assessed the final capital regulations in Japan, and the draft capital regulations in the European Union and the United States.[10] The Committee continued with assessments of Singapore and Switzerland, published in March and June 2013, respectively.[11] The Committee is currently in the process of assessing China, Brazil and Australia. New assessments of the European Union, United States and Canada will commence in the second half of 2013, and be published in 2014 (for an overview of scheduled assessments, see Annex 4). The Basel Committee urges jurisdictions to address material inconsistencies between domestic regulations and the globally agreed Basel standards identified by the final assessments under the RCAP. The Committee will monitor implementation progress in future assessments as well as analyse prudential outcomes.

The assessments are demonstrably contributing to greater consistency in the national adoption of Basel III standards. For example, in the case of Japan, Singapore and Switzerland, the regulatory authorities promptly resolved a number of initial assessment findings by amending the domestic regulations that implement Basel III capital standards (see table below). These amendments have contributed to a more consistent domestic implementation of the Basel framework, and thus set a positive precedent for future RCAP assessments and for the implementation process as a whole.

Overview of assessment outcomes — Table 1

Assessed member jurisdiction	Publication date of assessment	Number of regulatory changes, amendments, and clarifications made by a member jurisdiction during the assessment	Overall assessment grade
Japan	October 2012	5	Compliant
Singapore	March 2013	15	Compliant
Switzerland	June 2013	22	Compliant

Studies on regulatory outcomes

As part of RCAP, the Basel Committee has initiated studies to examine the consistency of risk-weighted assets (RWAs) measurement by banks that use internal model approaches. Following its first report on

[9] Steps are being taken to develop the framework and methodology for assessing the adoption and implementation of the Basel Committee's standards relating to liquidity and systemically important banks. This work is expected to be completed during 2014 ahead of the actual start of the liquidity and SIB standards assessments.

[10] The first three assessment reports were published in October 2012, available at www.bis.org/bcbs/implementation/l2.htm.

[11] *Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III regulations – Singapore*, March 2013, and *Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III regulations – Switzerland*, June 2013. Both assessments are available at www.bis.org/bcbs/implementation/l2.htm.

the measurement of market risk RWAs, issued in January 2013,[12] the Committee published a second report in July 2013 on the regulatory consistency of RWAs for credit risk in the banking book.[13] The banking book study draws on supervisory data from more than 100 major banks, as well as additional data on sovereign, bank and corporate exposures collected from 32 major international banks as part of a portfolio benchmarking exercise.

The banking book study reveals that there is considerable variation across banks in average RWAs for credit risk across banks. While most of the variation can be explained by broad differences in the composition of banks' assets, reflecting differences in business models and risk preferences, there is also material variation driven by diversity in bank and supervisory practices with regard to measuring credit risk.

Through a portfolio benchmarking exercise, the study found a high degree of consistency in banks' assessment of the relative riskiness of obligors. That is, there is a high correlation in how banks rank a portfolio of individual borrowers. Differences exist, however, in the levels of estimated risk that banks assign, as expressed in probability of default (PD) and loss-given-default (LGD). These differences drive the variation in risk weights attributable to individual bank practices, and could result in the reported capital ratios for some outlier banks varying by as much as 2 percentage points from a 10% risk-based capital ratio benchmark (or 20% in relative terms) in either direction, although the capital ratios for most banks are likely to fall within a narrower range.

Notable outliers are evident in each asset class, with the corporate asset class showing the tightest clustering of banks, and the sovereign asset class showing the greatest variation. The low-default nature of the benchmark portfolios and the consequent challenges in obtaining appropriate data for risk estimation may be one factor contributing to differences across banks, especially for banks' estimates of LGDs in the sovereign and bank asset classes.

In addition to the Committee's investigation of variability in RWA calculations, the Committee published a discussion paper in July to initiate discussion on the balance between risk sensitivity, simplicity and comparability within the Basel capital standards. In pursuing the potential policy options below, the Committee will seek to ensure that any changes in the framework strike an appropriate balance between the complementary goals of risk sensitivity, simplicity and comparability, as set out in the Committee's discussion paper.

Possible policy options

While some amount of variation is expected in any regime based on internal models, where it is considered excessive, the studies suggest a potential direction for future policy work that can narrow down variations. Possible short-term policy options include (i) improvement of public disclosure and regulatory data collection to aid in the understanding of risk-weighted assets; (ii) additional guidance and clarifications of the Basel framework; and (iii) further harmonisation of supervisory practices with regard to model approvals. Over the medium term, the Committee will examine the potential to further harmonise national implementation requirements and to place constraints on model parameter estimates. In addition, the ongoing policy work would benefit from additional analyses based on

[12] *Regulatory consistency assessment programme (RCAP) - Analysis of risk-weighted assets for market risk*, January 2013, www.bis.org/publ/bcbs240.htm. Following the publication of the report, the Committee commenced a second hypothetical test portfolio exercise, which is more comprehensive than the 2012 exercise. This exercise covers both simple and more complex trading portfolios, which test the output of the full suite of market risk internal models. The follow-up exercise includes 17 banks across nine jurisdictions. The results are expected around year-end 2013.

[13] *Regulatory consistency assessment programme (RCAP) - Analysis of risk-weighted assets for credit risk in the banking book*, July 2013, www.bis.org/publ/bcbs256.htm.

improved data, and it may be valuable to examine how cross-bank differences in RWAs vary over time as banks transition from Basel I to Basel II and then to Basel III. The Committee is therefore considering how best to periodically monitor and examine RWA dispersion across banks, and narrowing of inconsistent risk weighting. The overall aim is to reduce undesirable practice-based variations in RWAs, and improve the comparability of regulatory capital calculations by banks which is central to the implementation of the Basel III framework.

(i) Enhanced disclosures by banks

Enhanced Pillar 3 disclosures by banks could foster greater market discipline and prevent misperceptions as to the level and causes of RWA variations. Important areas of enhanced disclosure include:

- more granular information on asset class mix,
- internal risk grade distribution and associated risk parameter estimates,
- the share of defaulted exposures,
- information about the major sources of changes in RWAs over reporting periods,
- information about choices of credit risk approaches,
- capital floor adjustments, and
- other aspects of regulatory capital calculations that might vary across banks.

In addition, use of standardised definitions and templates could support greater consistency and comparability of disclosures. The proposals parallel certain recommendations of the Financial Stability Board's Enhanced Disclosure Task Force, which are set out in its 2012 report.[14]

(ii) Additional guidance on aspects of the Basel framework

Some drivers of RWA variation result from differences in interpretation and/or practices within areas that are left unspecified or less than fully specified within the capital framework. Examples include adjustment of risk parameters for conservatism or cyclical effects, and use of external data, particularly for low-default portfolios. In some areas, it may be appropriate for the Committee to provide additional guidance to reduce or eliminate undesirable variation attributable to such differences.

(iii) Harmonisation of national implementation requirements

Some of the drivers of variation in RWAs stem from aspects of the Basel framework itself, or from differences in its implementation in various jurisdictions. Examples where additional clarity could be provided and contribute substantially to reducing undesirable variation in RWAs include:

- capital floor adjustments,
- partial use of the standardised approach,
- definition of default,
- treatment of defaulted exposures,
- exemptions from the one-year maturity floor, and
- requirements related to estimation of IRB parameters.

[14] *Enhancing the risk disclosure of banks – report of the Enhanced Disclosure Task Force*, October 2012, www.financialstabilityboard.org/publications/r_121029.htm.

Many of these drivers could be addressed through clarification of the framework, through efforts to harmonise national implementation requirements, or through review of the continued relevance of various aspects of national discretion. In this context, the RCAP country assessments consider country-specific consistency vis-à-vis the Basel framework, and help identify potential areas of different interpretation that need clarification or refinement in the regulatory framework. In addition, national supervisors will undertake supervisory follow-up with specific banks.

(iv) Constraints on model parameter estimates

A final option could be to limit the flexibility of the advanced approaches. For example, supervisory benchmarks for risk parameters could be created from the data collected through the Committee's assessment and similar future work. Creation of such benchmarks could fill a valuable niche, for example, for low-default IRB portfolios, creating reference points for supervisors and banks. Benchmarks might include representative PD estimates for particular rating grades or for other indicators of credit quality, representative LGD estimates for various types of exposures or representative credit conversion factor estimates based on observed bank practices. Any benchmarks created would need to be communicated with care to avoid making them appear to be either regulatory requirements or "safe harbour" estimates, and to ensure that any potential reduction of variation does not come at the expense of a general decline in the level of RWAs. Other alternatives could include more explicit constraints, such as the creation of floors for certain parameters (such as LGD), or even fixed values of such parameters.

(iii) Policy reform under way

The core elements of the Basel III capital framework were finalised in 2010. Since then, the Basel Committee has largely completed the remaining components, including the capital frameworks for G-SIBs and D-SIBs and the final standard for the LCR.

In June and July 2013, the Committee published a series of documents, including an updated assessment methodology and higher loss absorbency requirement for G-SIBs. It also made substantial progress in a range of areas of the Basel framework. Specifically, the Committee issued the following consultative documents:

- *Revised Basel III leverage ratio framework and disclosure requirements*;[15]
- *Capital treatment of bank exposures to central counterparties*;[16]
- *The non-internal model method for capitalising counterparty credit risk exposures*;[17]
- *Capital requirements for banks' equity investments in funds*;[18] and
- *Liquidity Coverage Ratio disclosure standards.*[19]

[15] *Revised Basel III leverage ratio framework and disclosure requirements – consultative document*, June 2013, www.bis.org/publ/bcbs251.htm.

[16] *Capital treatment of bank exposures to central counterparties – consultative document*, June 2013, www.bis.org/publ/bcbs253.htm.

[17] *The non-internal model method for capitalising counterparty credit risk exposures – consultative document*, June 2013, www.bis.org/publ/bcbs254.htm.

[18] *Capital requirements for banks' equity investments in funds – consultative document*, July 2013, www.bis.org/publ/bcbs257.htm.

The Committee will finalise these documents after considering comments from stakeholders and interested parties. Further work is also under way in relation to trading book capital requirements, securitisation and the Net Stable Funding Ratio. It is intended that these policy reforms will be largely completed during the course of 2014.

[19] *Liquidity coverage ratio disclosure standards – consultative document*, July 2013, www.bis.org/publ/bcbs259.htm.

Annex 1: Monitoring adoption status of Basel III

The Basel III framework builds upon and enhances the regulatory framework set out under Basel II and Basel 2.5. The tables herein therefore review members' regulatory adoption of Basel II, Basel 2.5 and Basel III.

- Basel II, which improved the measurement of credit risk and included capture of operational risk, was released in 2004 and was due to be implemented from year-end 2006.[20] The Framework consists of three pillars: Pillar 1 contains the minimum capital requirements; Pillar 2 sets out the supervisory review process; and Pillar 3 corresponds to market discipline.
- Basel 2.5, agreed in July 2009, enhanced the measurements of risks related to securitisation and trading book exposures.[21] Basel 2.5 was due to be implemented no later than 31 December 2011.
- In December 2010, the Committee released Basel III, which set higher levels for capital requirements[22] and introduced a new global liquidity framework.[23] Committee members agreed to implement Basel III from 1 January 2013, subject to transitional and phase-in arrangements.

In November 2011, G20 Leaders at the Cannes Summit called on jurisdictions to meet their commitment to implement fully and consistently Basel II and Basel 2.5 by end-2011, and Basel III starting in 2013 and completing by 1 January 2019. In June 2012, G20 Leaders at the Los Cabos Summit reaffirmed their call for jurisdictions to meet their commitments. This message was reiterated in Moscow in February 2013 by the G20 Finance Ministers and Central Bank Governors.

Methodology

The data contained in this annex are based on responses from Basel Committee member jurisdictions. The following classification is used for the status of adoption of Basel regulatory rules:

1. Draft regulation not published: no draft law, regulation or other official document has been made public to detail the planned content of the domestic regulatory rules. This status includes cases where a jurisdiction has communicated high-level information about its implementation plans but not detailed rules.
2. Draft regulation published: a draft law, regulation or other official document is already publicly available, for example for public consultation or legislative deliberations. The content of the document has to be specific enough to be implemented when adopted.
3. Final rule published: the domestic legal or regulatory framework has been finalised and approved but is still not applicable to banks.

[20] *International Convergence of Capital Measurement and Capital Standards*, June 2006, www.bis.org/publ/bcbs128.htm.

[21] *Enhancements to the Basel II framework*, July 2009, available at www.bis.org/publ/bcbs157.htm.

[22] *Basel III: A global regulatory framework for more resilient banks and banking systems*, June 2011, www.bis.org/publ/bcbs189.htm.

[23] *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013, www.bis.org/publ/bcbs238.htm.

4. Final rule in force: the domestic legal and regulatory framework is already applied to banks.

In order to support and supplement the status reported, summary information about the next steps and the implementation plans being considered by members are also provided for each jurisdiction.[24] In addition to the status classification, a colour code is used to indicate the implementation status of each jurisdiction.[25]

[24] The table is also available on the Basel Committee's website (www.bis.org/bcbs). The web version includes links to relevant domestic regulations.

[25] Green = implementation completed; Yellow = implementation in process; Red = no implementation.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
Argentina	3, 4	1, 4	3, 4	1	1	
	(3) Final Pillar 3 rules published on 8 February 2013 will come into force on 31 December 2013. (4) Final rules for Pillar 1 credit risk and Pillar 2 came into force on 1 January 2013.	(1) Revisions to the Basel II market risk framework (July 2009): market risk amendments to reflect Basel 2.5 are considered a lower priority given the limited activity in Argentina. (4) Enhancements to the Basel II framework (July 2009): rules relating to enhancements to securitisation came into force on 1 January 2013.	(3) Final Pillar 3 rules published on 8 February 2013 will come into force on 31 December 2013. (4) Final rules for Pillars 1 and 2 came into force on 1 January 2013.			
Australia	4	4	4	1	2	
					Revised draft standards issued in May 2013 based on the January 2013 BCBS revisions.	
Belgium	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)
Brazil	4	4	3	1	1	
			Final rules published on			

[26] The Basel Committee is currently in the process of finalising the details of the Basel III leverage ratio standard. Classification scores for the implementation status will be assigned once the leverage ratio standard is finalised. The agreed start date for banks to begin disclosing their leverage ratios is 1 January 2015.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
			1 March 2013 will come into force on 1 October 2013.			
Canada	4	4	4	3, 4	1	
			Requiring banks to meet an "all-in" basis – thereby meeting 2019 capital levels but phasing out non-qualifying capital instruments.[27]	(3) Capital rules take effect in January 2016 (4) Final rules issued and additional supervisory expectations and disclosure obligations in effect.	Domestic process has begun and public consultation will commence in October 2013.	Domestic process begun to consider alignment of current Assets-to-Capital Multiple to Basel III leverage requirements.
China	4	4	4	1	1	
				The CBRC is reviewing the specific D-SIB supervisory framework. D-SIB surcharge of 1% has been applied to the five largest Chinese banks since 2010.		A domestic leverage ratio requirement of 4% has been in effect since 2012.
France	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)
Germany	4	4	(3)	(3)	(3)	

27 Final rules for the credit valuation adjustment (CVA) issued on 10 December 2012 will come into force on 1 January 2014.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)
Hong Kong SAR	4	4	4	1	2	
			Final rules on minimum capital standards and associated disclosure requirements took effect on 1 January 2013 and 30 June 2013, respectively. Rules on capital buffers expected to be issued in 2014.	Rules on G-SIB / D-SIB requirements expected to be issued in 2014 (likely in conjunction with rules on capital buffers).	Undertaking industry consultation on implementation of LCR. Rules on LCR expected to be issued in 2014.	Rules on disclosure of leverage ratio expected to be issued in 2014.
India	4	4	4	1	2	
			Footnote[28]		Draft guidelines issued in February 2012. Final rules on LCR are being formulated.	Guidelines issued in May 2012. Leverage Ratio monitoring started from quarter ending June 2013.
Indonesia	4	1	2	1	1	
		Securitisation exposures are insignificant and prospects remain highly subdued for any material issuance. Furthermore, no bank opts to adopt	Regulation on Basel III capital is to be issued in 2013.	BI is currently conducting a study to determine the appropriate D-SIB framework that fits with the nature of the	BI has started dialogues with supervisors and the banking industry to reach a common interpretation of elements required in	Leverage ratio discussed in Basel III consultative paper released in June 2012.

[28] Final rules for the credit valuation adjustment (CVA) issued for implementation from 1 January 2014. Composition of capital disclosure rules implemented from 1 July 2014. Rules on capital requirements for banks' exposures to central counterparties (CCPs) issued for implementation from 1 January 2014.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
		the internal model approach (IMA) for market risk. Nevertheless, a consultative paper on Basel 2.5 is to be issued in 2013 to seek the industry's comments on the possible changes to BI's relevant regulations eg BI's 2005 regulation concerning asset securitisation for banks and BI's 2007 regulation concerning market risk internal model.		Indonesian financial system.	the 2013 LCR.	
Italy	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)
Japan	4	4	4	1	1	
			Rules covering capital conservation buffer and the countercyclical buffer not yet issued. Draft regulations expected in 2014/15.			
Korea	4	4	3	1	1	
			Final regulation was published on 3 July 2013 and it will come into force on 1 December 2013.			
Luxembourg	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
Mexico	4	1, 4	4	1	1	
		(1) Other than the Pillar 2 provisions, which have been partially implemented, the remaining aspects will be implemented in 2013. (4) Pillar 2 provisions have been partially implemented.	Rules on banks' exposure to central counterparties (CCPs) not yet issued.			
The Netherlands	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)
Russia	1, 4	1, 4	3	1	1	
	(1) Draft regulations for Pillars 2 and 3 are being developed. They are planned to be published during 2013. (4) Simplified standardised approach for credit risk, simplified approach for market risk and the Basic Indicator Approach for operational risk implemented.	(1) Draft regulations for Pillars 2 and 3 are planned to be published during 2013. (4) Final regulation on the revised standardised approach for market risk in force since 1 February 2013.	Regulation for capital definition and capital adequacy ratios published in February 2013 with draft amendments published in July 2013. Reporting under the new capital rules started at 1 April 2013 with 1 January 2014 being the effective date of their implementation as a regulatory requirement.	Methodology of D-SIB determining is planned to be published for public consultation in 2013.	Draft regulation for LCR developed and planned to be published in 2013.	Draft regulation for leverage ratio planned to be published in 2013 with the parallel run period starting from third quarter of 2013.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
Saudi Arabia	4	4	4	1	1	
Singapore	4	4	4	1	1	
						See footnote[29]
South Africa	4	4	4	3	3	
	See footnote[30]		A directive has been recently issued which has the effect that the capital charge for credit valuation adjustment (CVA) risk on banks' exposures to ZAR-denominated OTC derivatives and non-ZAR OTC derivatives transacted purely between domestic entities will be zero-rated for the course of	The requirements related to G-SIB/ D-SIB has already been incorporated into the Regulations (Basel III) that were implemented with effect from 1 January 2013. Subsequently the BSD issued a directive to banks regarding the application of the amended capital framework, which	The requirements related to the calculation of and reporting to the BSD of LCR have already been incorporated into the Regulations (Basel III) that were implemented with effect from 1 January 2013, which is currently primarily being used for monitoring purposes. Subsequently the BSD	The requirements related to the calculation of and reporting to the Bank Supervision Department (BSD) of a leverage ratio have already been incorporated into the Regulations (Basel III) that were implemented with effect from 1 January 2013, which is currently primarily

29 MAS has published and implemented requirements on the calculation of the leverage ratio and reporting to MAS in MAS Notice 637, based on the rules published in the Basel III text dated 16 December 2010 (revised 1 June 2011). The Basel rules on the Leverage Ratio are expected to be updated by the end of 2013 for the implementation of the disclosure requirement by 1 January 2015, and the final Basel rules on the Leverage Ratio are expected to be published in 2017. MAS will reference these revisions in the Basel rules and implement them in their regulations accordingly.

30 The Regulations that contain the Basel II, Basel 2.5 and Basel III requirements are available at www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5442.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
			2013, ie until 31 December 2013.[31]	includes the requirements related to G-SIBs / D-SIBs.[32]	issued a directive to banks to incorporate the updated LCR framework issued by the Basel Committee during January 2013.[33]	being used for monitoring purposes.
Spain	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)
Sweden	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process) The Basel Committee's December 2010 LCR is implemented and in force.[34]	(Follow EU process)
Switzerland	4	4	4	4	4, 1	
				Final rule in force for G-SIBs and D-SIBs.	(4) Published requirements for monitoring period for LCR until end 2014.	Test reporting planned for the fourth quarter of 2013. Requirements for LR monitoring

31 This came about as a result of the limited time between the finalisation by the Basel Committee of the proposed rules and the intended date of implementation, and the absence of a domestic central counterparty for domestic OTC derivatives transactions.

32 The directive is available at www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5686.

33 The directive is available at www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5626.

34 The rule is available at http://fi.se/Folder-EN/Startpage/Regulations/Regulatory-Code/FFFS-201206/.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
					Published qualitative requirements for liquidity risk management. (1) Started discussion with industry on draft LCR rules. Consultation of draft ordinance planned for Oct 2013. Enactment planned for first quarter of 2014.	period planned for mid-2014.
Turkey	4	4	2	1	2	
			Draft regulations issued in February 2013.		Draft regulation issued in July 2013.	Draft regulation issued in March 2013.
United Kingdom	4	4	(3)	(3)	(3)	
			(Follow EU process)	(Follow EU process)	(Follow EU process)	(Follow EU process)
United States	4	3, 4	3	1	1	
	Parallel run ongoing: all Basel II mandatory institutions are required to implement the advanced approaches to credit risk and operational risk. Banks have made significant progress in implementation efforts and those institutions in parallel run are reporting both Basel I and Basel II regulatory capital ratios to supervisors on a	(4) Final market risk capital requirements, which incorporate Basel 2.5, became effective on 1 January 2013. (3) Other Basel 2.5 revisions included as part of the final Basel III rule approved in July 2013, effective 1 January 2014.	Final Basel III rule approved in July 2013, effective 1 January 2014.	US agencies currently anticipate issuance of a notice of proposed rulemaking to implement the G-SIB framework by year-end 2013, pending finalisation of this framework by the Basel Committee.	US agencies currently anticipate issuance of a notice of proposed rulemaking with regard to the LCR by year-end 2013.	Leverage ratio included in final Basel III rule approved in July 2013 and effective 1 January 2014. Existing US leverage ratio remains in effect. Basel III leverage ratio reporting begins 1 January 2015, and compliance with minimum requirements begins 1 January 2018.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
	quarterly basis. US institutions in parallel run remain subject to Basel I capital requirements.					
European Union	4	4	3	3	3	
			The agreement between the European Parliament and the EU Council on the legislative texts implementing Basel III and further measures regarding sound corporate governance and remuneration structures published in the Official Journal[35] on 27 June 2013 with a date of application of 1 January 2014. The legislative texts are Directive (No 2013/36) and Regulation (No 575/2013). Where necessary, detailed technical standards will be prepared by EBA and adopted by the Commission on a timely	Mandatory G-SIB and optional D-SIB buffers implemented by Article 131 of Directive No 2013/36 with date of application of 1 January 2016.	LCR to be implemented by a delegated act to be adopted by the Commission before 30 June 2014 for application in 2015 (cf Article 460 Regulation No 575/2013).	Mandatory disclosure of leverage ratio from 1 January 2015 (cf Articles 451 and 521 of Regulation 575/2013).

35 Available at http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2013:176:SOM:EN:HTML.

Country	Basel II	Basel 2.5	Basel III			
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio[26]
			basis.			

Annex 2: Adoption of Basel standards by non-Basel Committee/non-EU jurisdictions: 2013 FSI survey

The FSI survey covers the same scope as the BCBS survey – jurisdictions' regulatory adoption of Basel II, Basel 2.5 and Basel III.

Methodology

For the status of adoption of Basel regulatory rules, the FSI uses the same classification adopted by the Basel Committee: (1) Draft regulation not published; (2) Draft regulation published; (3) Final rule published; (4) Final rule in force. If a jurisdiction gets classification of 2, 3 or 4 for at least one subsection of Basel II, Basel 2.5 or Basel III, the jurisdiction will be deemed to be in the process of implementing the rules.

Tables

Basel II: Implemented / in the process of implementation (54 as of end-May 2013)

Jurisdiction	Jurisdiction	Jurisdiction	Jurisdiction
Armenia	Georgia	Madagascar	Philippines
Bahrain	Gibraltar	Malawi	Qatar
Bangladesh	Guatemala	Malaysia	Republic of Macedonia
Barbados	Guernsey	Mauritius	Serbia
Bermuda	Honduras	Montenegro	Seychelles
Bolivia	Iceland	Morocco	Sri Lanka
Bosnia and Herzegovina	Isle of Man	Mozambique	Thailand
Cayman Islands	Jersey	Namibia	The Republic of Belarus
Chinese Taipei	Jordan	Nepal	Uganda
Colombia	Kosovo	New Zealand	United Arab Emirates
Congo	Kuwait	Norway	Uruguay
Costa Rica	Lebanon	Oman	Zimbabwe
Dominican Republic	Liechtenstein	Paraguay	
Egypt	Macao	Peru	

Basel 2.5: Implemented / in the process of implementation (16 as of end-May 2013)

Jurisdiction	Jurisdiction	Jurisdiction	Jurisdiction
Bahrain	Egypt	Lebanon	Nepal
Barbados	Gibraltar	Liechtenstein	Norway
Cayman Islands	Iceland	Malawi	Uganda
Chinese Taipei	Jersey	Morocco	United Arab Emirates

Basel III: Implemented / in the process of implementation (26 as of end-May 2013)[36]

Jurisdiction	Jurisdiction	Jurisdiction	Jurisdiction
Bolivia	Kosovo	Norway	The Republic of Belarus
Chinese Taipei	Lebanon	Peru	Uganda
Colombia	Malaysia	Philippines	United Arab Emirates
Costa Rica	Morocco	Qatar	Uruguay
Egypt	Namibia	Republic of Macedonia	Zimbabwe
Georgia	Nepal	Serbia	
Gibraltar	New Zealand	Thailand	

36 Some jurisdictions that have no significant trading book or securitisation businesses skip Basel 2.5 to implement Basel III directly.

Annex 3: Assessment of regulatory consistency of capital regulations in Switzerland

In June 2013, the Basel Committee issued the report on compliance of Switzerland's domestic capital rules vis-à-vis international Basel capital standards through its Regulatory Consistency Assessment Programme (RCAP). It is the fifth assessment report following earlier reports on the European Union, Japan, Singapore and the United States.

The Assessment Team held technical discussions with senior officials and staff of the Swiss Financial Market Supervisory Authority (FINMA), and met with senior representatives from banks and regulatory audit firms based in Switzerland.

Switzerland has implemented its Basel capital framework with the intention that it conform closely to the Basel standard. The assessment found the implementation of the International Approach closely aligned with Basel III standards and therefore assessed it as "compliant". In total, 11 out of 14 assessed components were found to be "compliant", while three of the components were graded "largely compliant" (definition of capital, credit risk-IRB and Pillar 3). Although some differences with the Basel framework were found in these three areas, none of the findings were evaluated to be material at this point.

An alternative capital adequacy regime in Switzerland, the "Swiss Standardised Approach", which has its origins prior to Basel I, is used primarily by smaller Swiss banks and is being phased out by end-2018. This approach was not assessed as compliant, but given it is not the approach used by most internationally active banks and is being discontinued, the assessment team judged that it should not impact on the overall rating for Switzerland.

In response to the assessment, FINMA initiated the rectification of the most important identified deviations from the Basel framework, without which the assessment would have been less favourable. This constitutes a strong commitment on the part of Switzerland to the global regulatory reforms, and is reflected in FINMA's response to the report.

RCAP assessment grades: Switzerland

Table 2

Key components of the Basel framework	Grade[37]
Overall grade	Compliant
Capital requirements	
Scope of application	Compliant
Transitional arrangements	Compliant
Pillar 1: Minimum capital requirements	
Definition of capital	Largely Compliant
Capital buffers (conservation and countercyclical)	Compliant
Credit risk: standardised approach	Compliant
Credit risk: internal ratings-based approach	Largely Compliant
Credit risk: securitisation framework	Compliant
Counterparty credit risk rules	Compliant
Market risk: standardised measurement method	Compliant
Market risk: internal models approach	Compliant
Operational risk: basic indicator approach and standardised approach	Compliant
Operational risk: advanced measurement approaches	Compliant
G-SIB additional loss absorbency requirements	NA
Pillar 2: Supervisory review process	
Legal and regulatory framework for the supervisory review process and for taking supervisory actions	Compliant
Pillar 3: Market discipline	
Disclosure requirements	Largely Compliant

[37] Compliance assessment scale: Compliant, Largely Compliant, Materially Non-Compliant and Non-Compliant. For definitions of the compliance scale, see Basel Committee on Banking Supervision, *Basel III regulatory consistency assessment programme*, April 2012, www.bis.org/publ/bcbs216.pdf.

Annex 4: Schedule of future RCAP assessments

RCAP: assessment of implementation of Basel III capital regulations (2012–15)* Table 3

Basel Committee member jurisdiction	Assessment status	(Tentative) publication date of assessment report
European Union	Preliminary assessment	Published October 2012
United States	Preliminary assessment	Published October 2012
Japan	Completed	Published October 2012
Singapore	Completed	Published March 2013
Switzerland	Completed	Published June 2013
China	Under way	September 2013
Brazil	Under way	December 2013
Australia	Under way	March 2014
Canada	Being initiated	June 2014
European Union	Being initiated	June 2014
United States	Being initiated	September 2014
Hong Kong SAR	Planned	December 2014
Mexico	Planned	December 2014
India	Planned	March 2015
South Africa	Planned	March 2015
Argentina**	Planned	tbd
Indonesia**	Planned	tbd
Korea**	Planned	tbd
Russia**	Planned	tbd
Saudi Arabia**	Planned	tbd
Turkey**	Planned	tbd

* Assessments of implementation of Basel III standards relating to liquidity, leverage and GSIBs, and follow-up assessments on capital regulations, will start from 2015.

** The assessment work will be initiated or undertaken during 2015. Ahead of that, these BCBS members will undertake self-reviews based on the RCAP assessment questionnaire.