Banking Regulation

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From: "Bringing Basel IV into focus"

1. The Basel III regulatory framework was developed to enhance the stability of the financial system by raising requirements on regulatory capital and liquidity. Basel III increased thresholds for capital quality and quantity, raising Tier 1 capital requirements, introducing buffers and leverage-ratio requirements, and adding the Common Equity Tier 1requirement (CET1).

2. Since Basel III was rolled out, the Basel Committee on Banking Supervision (BCBS) has been reviewing risk-measurement approaches internationally and among banks. One outcome of this review was the new standardized measurement approach (SMA) for operational risk, which was proposed in 2016. The committee finalized standards for minimum capital requirements for market risk—the fundamental review of the trading book (FRTB)—in January 2016. The committee plans to make technical revisions to this framework in 2017–18. Together, the changes are part of a Basel III amendment now more commonly referred to as Basel IV.

3. The Group of Central Bank Governors and Heads of Supervision (GHOS) indicated that it does not intend to increase the total regulatory capital requirements in the industry as a whole. But it acknowledged that the impact "may well be significant" for some banks.