



THE BASEL III GODS SPEAK LOUD AND CLEAR

REALITY SETS IN — FINAL DEADLINES ANNOUNCED

REGULATORY PERSPECTIVES

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After much anticipation, the Basel Committee on Banking Supervision (BCBS) released its revised timeline for **Basel III implementation** setting the “up and running” dates as no later than **January 1, 2022** (read December 31, 2021). The comprehensive **main document**, accompanied by an **explanatory note**, and a **new QIS report**, establishes the final framework for global implementation.

This new standard also establishes the certainty of FRTB being applied globally and in a systemic fashion. The panoply of bank regulation is designed to address the gaps that became apparent in the global financial crisis almost a decade ago. It includes new implementation frameworks for the following list of pending standards that has fatigued the industry:

- The Fundamental Review of the Trading Book (**FRTB** or market risk framework)
- The revised standardized approach (**SA**) to credit risk
- The revised internal ratings-based (**IRB**) for credit risk
- The revised credit valuation adjustment (**CVA**) framework
- The revised **Operational Risk** framework
- The revised **Leverage Ratio** (including a revised definition of exposure)
- The revised **G-SIB** buffer framework
- The revised **Output Floor** for internal models (5-year phase-in).

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In its opening statement, BCBS expressed what we have long felt in the industry:

“The Committee’s own empirical analyses also highlighted a worrying degree of variability in banks’ calculation of RWA. The revisions to the regulatory framework will help restore credibility in the calculation of RWA.”¹

Any one of these initiatives would, on their own, represent a daunting implementation challenge for most banks. Taken together, these initiatives are nothing short of monumental despite the extended timelines.

Consider the work ahead as we track backwards from 2021:

- Banks, particularly those applying the internal models approach, will need to submit revised structures and frameworks for regulatory approval at least a year in advance

→ We are looking at December 2020

- Banks will need to have implemented supporting technology, platforms, and governance that will bring fundamental changes to their current frameworks

→ Should not be later than June 2020

- Banks will need to have finalized, tested and mobilized a planned framework for implementation including:

- New systems investment
- New adjudication processes
- New desk construction
- New risk methodologies
- New business measurement frameworks
- New reporting, compliance and audit requirements.

→ This brings us back to June 2019

- Banks will need to examine the new requirements and new impact analysis of BCBS and regional standards. This will include both top of the house as well as jurisdictionally ring-fenced jurisdictions.

→ We are getting closer, June 2018

- For their part, the regulators will stay very busy as well:

- BCBS will need to finalize interpretation of each standard within the Basel III framework that should be due by Spring 2018
- Regulators in each jurisdiction will need to finalize local rule-making notices that should be completed December 2018.

Moreover, several jurisdictions are likely to require implementation earlier than the prescribed minimum deadline.

The extended deadlines provide a much-needed breather for Basel III implementation. While the new timelines are more realistic, we do not expect further extensions. In addition, lingering uncertainties regarding the enforcement of FRTB, and more broadly – Basel III, were cleared with this BCBS announcement. The new deadlines underscore the need to start planning and implementation in early 2018.

1. <https://www.bis.org/bcbs/publ/d424.htm>