Banking regulation: Commission welcomes Basel Committee’s agreement on post-crisis reforms

The Group of Governors and Heads of Supervision (GHOS), the oversight body of the Basel Committee on Banking Supervision, has endorsed a package of amendments to the Basel III framework, the internationally agreed prudential standards for banks, that aim to finalise the post-crisis reforms. This agreement is the result of a strategic review of those international reforms which was conducted by the Basel Committee with the aim of improving the balance between simplicity, comparability and risk sensitivity.

The agreement will now be subject to a thorough Commission consultation and impact assessment to evaluate the consequences for the EU economy before it can be translated into EU law taking into account the results of the impact assessment.

Valdis **Dombrovskis**, Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union, said: *“EU banking regulation must provide a foundation for a stable banking system that supports the European economy. International cooperation in this matter is crucial to ensure financial stability and a level playing field for banks globally. The measures that were agreed by the Basel Committee represent the last major piece of the regulatory reform that was launched in the wake of the financial crisis. It is now essential that all major jurisdictions implement all elements of this agreement.The Commission will now carry out a thorough and detailed impact assessment.”*

Next steps

The implementation of today’s agreement in the EU would require amendments to current banking regulations, including the Capital Requirements Regulation (CRR). Before proposing such amendments, together with a thorough impact assessment, the Commission will also consult the EU institutions, Member States and the various stakeholders. Any legislative proposal would be independent from the CRR amendments that were proposed by the Commission in November 2016 and that are currently being negotiated by the European Parliament and the Council.

Background

The Basel III capital framework sets global minimum standards for the amount of capital that banks must hold to cover the risks that they are exposed to. These standards are internationally agreed in the Basel Committee on Banking Supervision. The Basel Committee has 45 members from 28 jurisdictions, with around one-third being Member States of the EU.

In order for the Basel standards to become binding on banks, they must be implemented in the laws of the individual member jurisdictions. In the EU, this implementation is done through the CRR and the Capital Requirement Directive (CRD).

The Basel standards contain different methods that may be used to calculate capital requirements for individual banks, including complex methods based on banks' internal models and simpler standardised approaches. During the crisis, concerns were raised regarding some of these different methods, in particular those allowing the use of internal models. Today's agreement is intended to address some of these concerns by, amongst other things, enhancing the robustness and risk sensitivity of the standardised approaches while constraining the use of internal models in certain respects.

For More Information

Link to GHOS/BCBS press release