

Basel Committee Finalizes Basel III Reforms

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Six years after finalizing the first set of Basel III reforms to the capital framework for banking organizations, the Basel Committee on Banking Supervision has agreed on and [released](#) the final set of revisions to the Basel III capital standards (sometimes referred to as “Basel IV”).

The reforms include the following components:

- a **revised standardized approach for credit risk**, improving the granularity and risk sensitivity of the existing standardized approach, while reducing reliance on credit ratings;
- a **revised internal ratings-based approach for credit risk**, which limits the use of the most advanced internally modelled approaches for low-default portfolios;
- **revisions to the CVA (credit value adjustment) risk framework** to enhance risk sensitivity, remove the use of internally modelled approaches and introduce a revised standardized approach for greater consistency;
- a **streamlined framework for the standardized approach for operational risk**, replacing the existing three standardized approaches with a single risk-sensitive standardized approach;
- **refinements to the leverage ratio exposure measure and introduction of a G-SIB leverage buffer**, which will take the form of a Tier 1 capital buffer set at 50% of a G-SIB’s risk-weighted capital surcharge; and
- **an aggregate output floor**, which will ensure that a firm’s risk-weighted assets (RWAs) generated by internal models are no lower than 72.5% of its RWAs under the revised standardized approach. Firms will also be required to disclose their RWAs based on the revised standardized approach.

The Basel Committee also announced that it has delayed the implementation date of the revised capital standard for market risk, which was originally scheduled to become effective in 2019, to January 2022.

The U.S. banking agencies [announced](#) their support for these reforms and will now “consider how to appropriately apply these revisions to the Basel III reform package in the United States... through the standard notice-and-comment rulemaking process.”

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Luigi L. De Ghenghi

+1 212 450 4296
luigi.deghenghi@davispolk.com

Andrew Rohrkemper

+1 212 450 3207
andrew.rohrkemper@davispolk.com

Gabriel D. Rosenberg

+1 212 450 4537
gabriel.rosenberg@davispolk.com

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