

BANKING ESSENTIALS SERIES

Exploring Basel III/IV: Scenarios for Financial Stability and Growth

Wednesday, 5 March 2025

4:00 – 5:00 PM (CET)

3:00 – 4:00 PM (GMT)

Online webinar

Panelists



Adrian Docherty

Head of Bank Advisory
BNP Paribas



Mohsin Ali Khan

Director, CIQ Solutions Business
Development
S&P Global Market Intelligence



Gonzalo Gasós

Senior Director of Prudential
Policy & Supervision
EBF

Moderator



Vanya Damyanova

Senior Reporter
S&P Global Market
Intelligence

S&P Global Market Intelligence and the European Banking Federation present
BANKING ESSENTIALS – A Banking Webinar Series

Exploring Basel IV: Scenarios for Financial Stability and Growth

Gonzalo Gasós

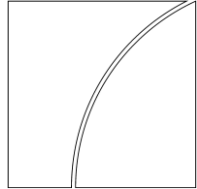
Senior Director

European Banking Federation

05/03/2025

Stability & Growth

1 BASEL III ACCOMPLISHED from 2010 to 2016



Basel Committee
on Banking Supervision

Basel III
Monitoring Report

March 2016

All large internationally active banks meet Basel III minimum and CET1 target capital requirements

2 G20 HAMBURG July 2017



We confirm our support ... to finalise the Basel III framework without further significantly increasing overall capital requirements across the banking sector

3 COVID-19 PANDEMIC in 2020 - 2021

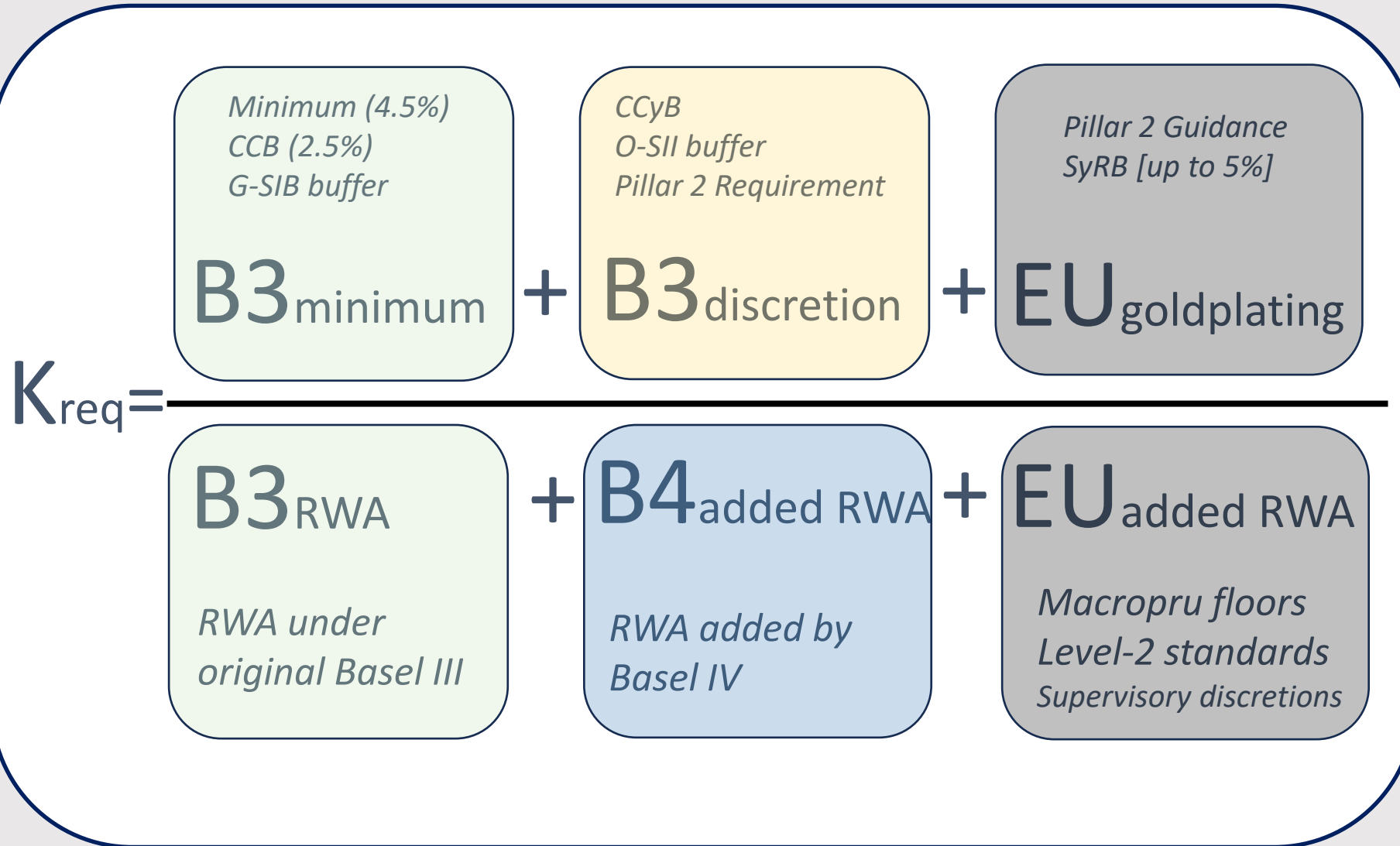
- ✓ *ECB called banks to use their buffers to ensure households and businesses access to funding*
- ✓ *Freeing up capital for €120 billion banks could finance up to €1,8 trillion in new loans to households and businesses*

4 DRAGHI REPORT – EU FUNDING GAP 2024-2030

Where to find 800 billion euro?

- *Retail savings to investment? ... when?*
- ***Capital Markets?*** ... which preconditions?
- ***Public sector*** participation? ... how much?
- ***Securitisation*** revival? ... indeed!
- ***Goldplating*** reduction? ... necessary!

Complexity & Fragmentation



Striking the right balance

		DENOMINATOR			
		B3 _{RWA}	B4 _{added RWA}	EU _{added RWA}	Total
N U M E R A T O R	B3 _{minimum CET1}	740 bn	75 bn	additional capital could be significant (tbe)	> 815 bn
	B3 _{discretion CET1}	250 bn	25 bn	scale-up of EU optional requirements (tbe)	> 275 bn
	EU _{goldplating CET1}	150 bn (SyRB could add 480 bn)	15 bn (SyRB could add 80 bn)	goldplated EU buffers over goldplated RWA (tbe)	> 165 bn (SyRB could add > 560 bn)
Total		1,140 bn	115 bn	to be estimated	> 1,255 bn

Approximate figures based on EBA Risk Dashboard and ECB SREP 2024 aggregated results

Basel 4 minimum:	815 bn
EU and national discretion:	275 bn
EU goldplating:	165 bn
Potential additional SyRB goldplating:	560 bn

Glossary



CET1: Core Equity Tier 1 capital

RWA: Risk Weighted Assets

Kreq (CET1): Minimum Capital Requirement of CET1

CCB: Capital Conservation Buffer (Basel Committee)

G-SIB: Global Systemically Important Bank (Basel Committee / Financial Stability Board)

O-SII: Other Systemically Important Institutions (Basel Committee at national discretion of Member States)

CCyB: Countercyclical buffer (Basel Committee at national discretion of Member States)

P2R: Pillar 2 Requirement (Basel Committee / Supervisors)

SyRB: Systemic Risk Buffer (EU legislation / Member States)

P2G: Pillar 2 Guidance (EU legislation / Supervisors)

Note: in brackets the standard setter or authority that assigns every buffer or is empowered to request and change it

S&P Global

Market Intelligence



Overview of capital requirements across Basel jurisdictions

Mohsin Ali Khan

Director, CIQ Solutions Business Development

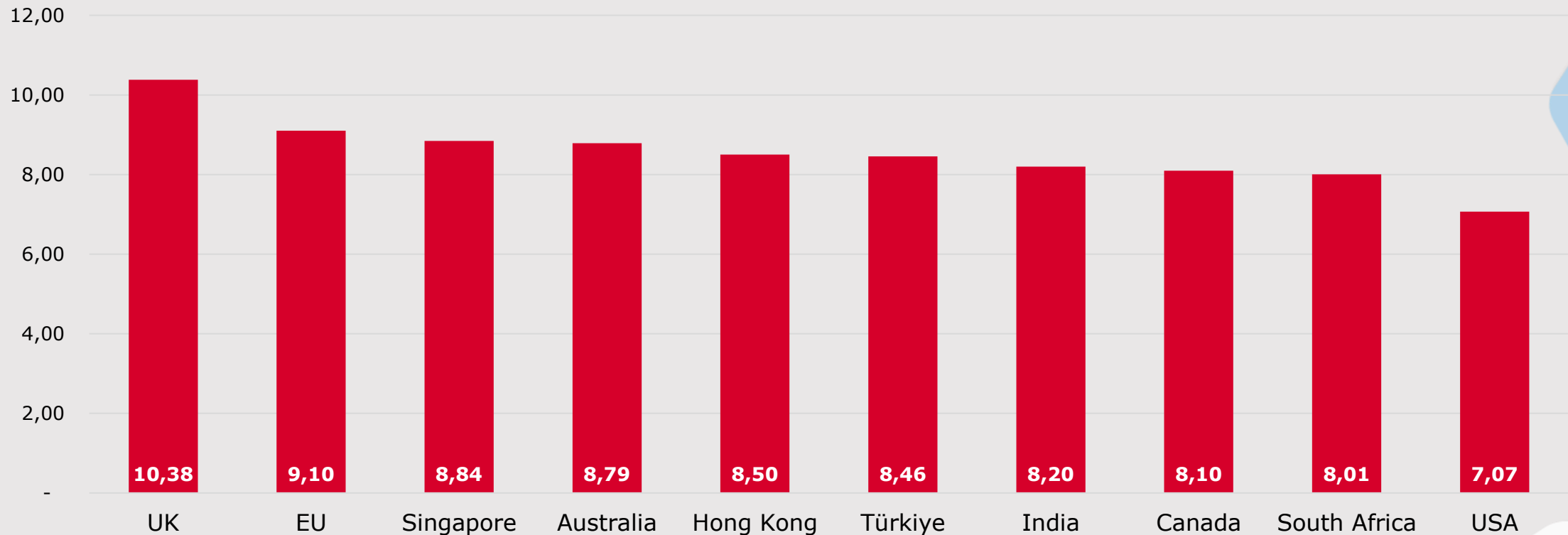
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Market Intelligence

UK and EU banks on average have the highest Total CET1 Requirement.

Total CET1 Requirement (%)



Source: S&P Global Market Intelligence

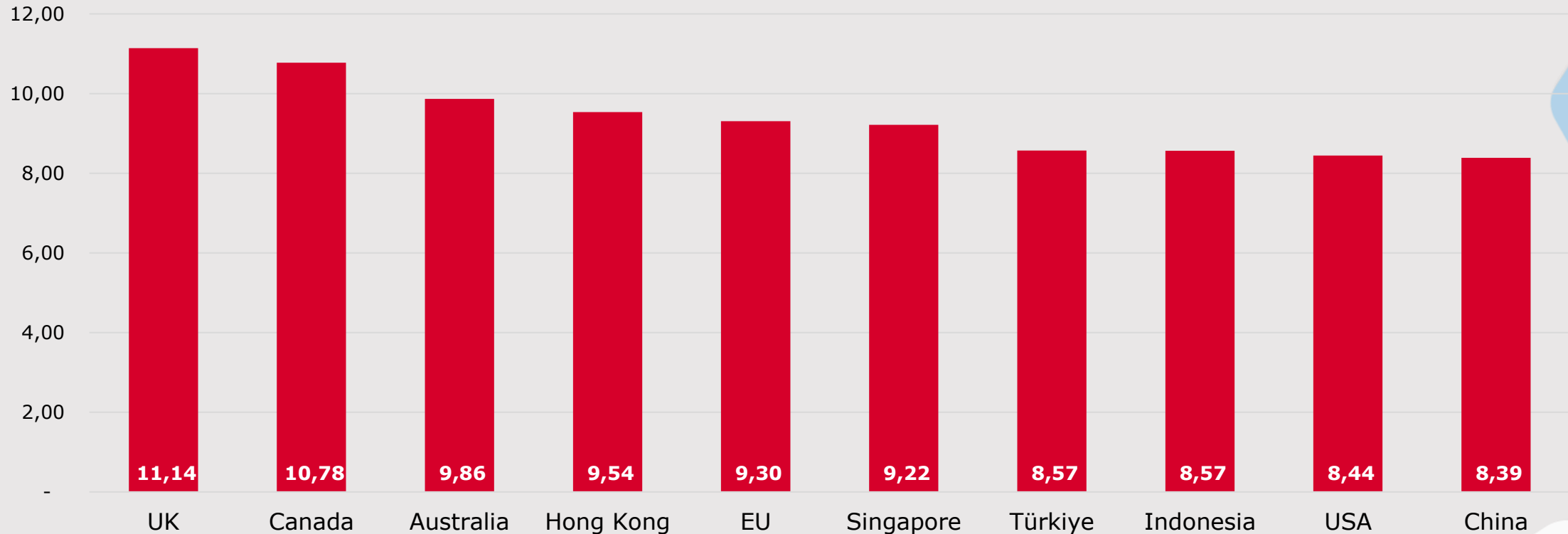
Data as of 03/03/2025 for 2023 Fiscal Year End.

Values represent mean of Total CET1 Requirement for banks in respective country/region that have reported all components of Total CET1 Requirement.

Data for banks in select Basel member countries/region. For comparison purposes, countries with mean values between South Africa and USA are omitted from the graph.

UK banks still have the highest based on weighted average of Total CET1 Requirement, with EU banks remaining in the top five.

Total CET1 Requirement (%)



Source: S&P Global Market Intelligence

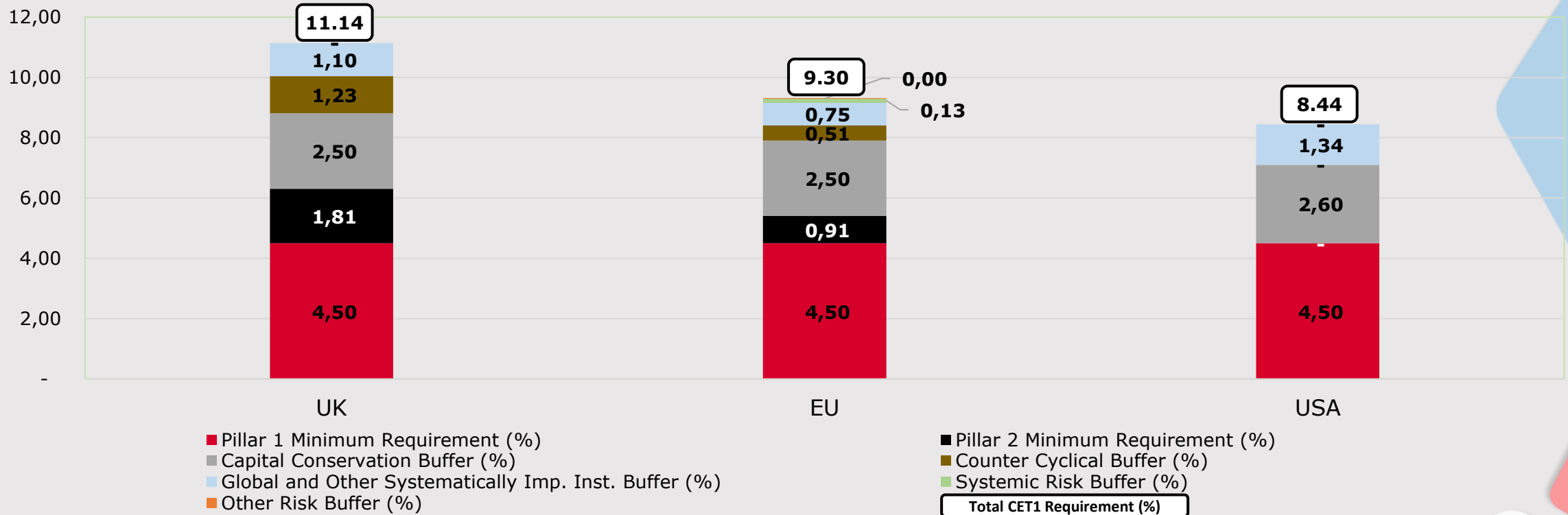
Data as of 03/03/2025 for 2023 Fiscal Year End.

Values represent weighted average (risk-weighted assets) of Total CET1 Requirement for banks in respective country/region that have reported all components of Total CET1 Requirement.

Data for banks in Basel member countries/region in top ten based on weighted average value of Total CET1 Requirement.

A variety of capital requirements reported by banks in UK and EU, compared to banks in USA.

Total CET1 Requirement Breakdown (%)



Source: S&P Global Market Intelligence

Data as of 03/03/2025 for 2023 Fiscal Year End.

Values represent weighted average (risk-weighted assets) of Total CET1 Requirement for banks in respective country/region that have reported all components of Total CET1 Requirement.

For banks in USA: when Capital Conservation Buffer was not reported, value of Stress Capital Buffer was captured instead.

Select examples of capital requirements in place for banks in EU.

Other Systemically Important Institution Buffer

Danske Bank

Combined buffer requirement (as a percentage of risk-weighted exposure amount)	
8 Capital conservation buffer (%)	2.5%
EU 8a Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	
9 Institution specific countercyclical capital buffer (%)	2.0%
EU 9a Systemic risk buffer (%)	0.5%
10 Global Systemically Important Institution buffer (%)	
EU 10a Other Systemically Important Institution buffer	→ 3.0%

Nordea Bank

Percentage	Min. capital requirement	Pillar 2 Requirement	CCoB	CCyB	O-SII
Common Equity Tier 1 capital	4.5	0.9	2.5	1.7	→ 2.5

Systemic Risk Buffer

Svenska Handelsbanken

Combined buffer requirement (as a percentage of risk-weighted exposure amount)	
Capital conservation buffer (%)	2.5%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	
Institution specific countercyclical capital buffer (%)	1.9%
Systemic risk buffer (%)	→ 3.2%
Global Systemically Important Institution buffer (%)	
Other Systemically Important Institution buffer	1.0%

Skandinaviska Enskilda Banke

Additional CET1 buffer requirements and CET1 Pillar 2 Guidance (as a percentage of TREA)	
Capital conservation buffer (%)	2.5%
Institution specific countercyclical capital buffer (%)	1.6%
Systemic risk buffer (%)	→ 3.1%
Other Systemically Important Institution buffer (%)	1.0%

Source: S&P Global Market Intelligence and company filings.
Data as of 03/03/2025 for regulatory capital requirements reported for 2023 Fiscal Year End.



BNP PARIBAS



Basel IV: Designed to Override Reality

Adrian Docherty

Head of Bank Advisory
BNP Paribas

05/03/2025

Basel IV: Designed to Override Reality

Modelled capital requirements led to perceived problems

Issues addressed by capital floors and leverage ratios

Table 1

Issue	Addressed by risk-weighted capital floor	Addressed by the leverage ratio
• Use of low RWAs to boost financial leverage	No	Yes
• Unexpectedly large losses in low-RWA portfolios	No	Yes
• Lack of market confidence in RWAs	No	Yes
• RWA inconsistency and dispersion	Yes	No
• Low level of models-based RWAs	Yes	No
• Horizontal inequity in risk-weighted capital	Yes	No

Source: BCBS Paper 306, December 2014

During the depths of the crisis, did some banks reduce model conservatism to boost reported solvency?

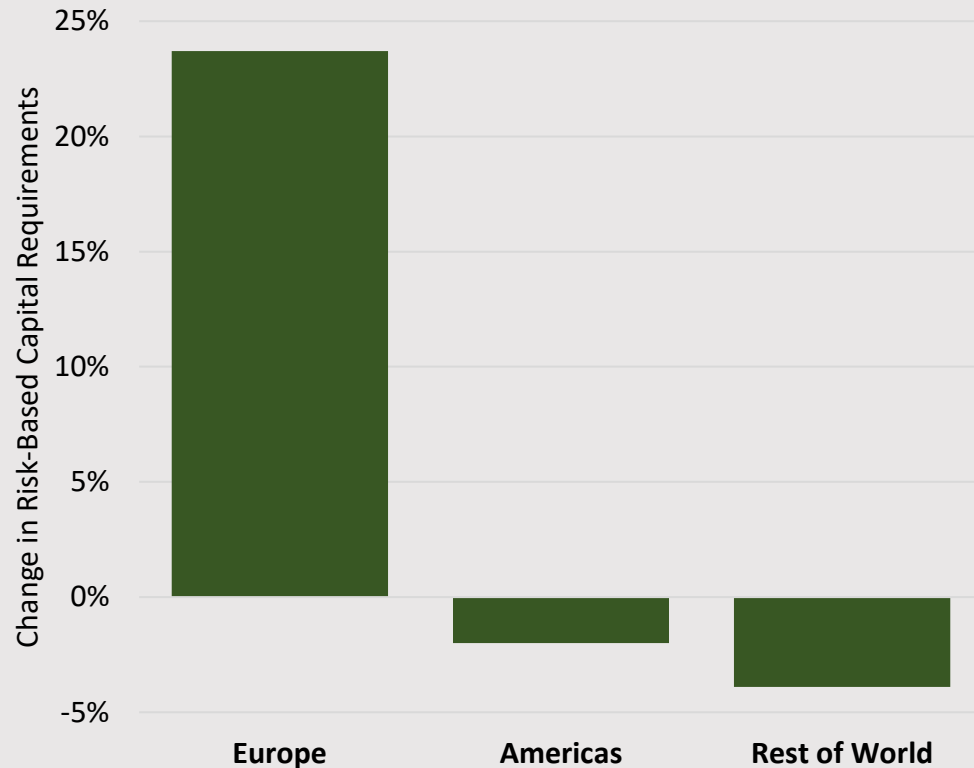
Quantitative studies have been inconclusive. Regulators concluded that banks' models gave inconsistent outputs

In December 2014, Basel proposed a floor based on standardised look-ups

Of course, the real answer is to improve supervision of banks' models

Basel IV: capital neutral – but only in aggregate

Regional impact of Basel IV implementation



Basel IV was agreed to be capital neutral overall

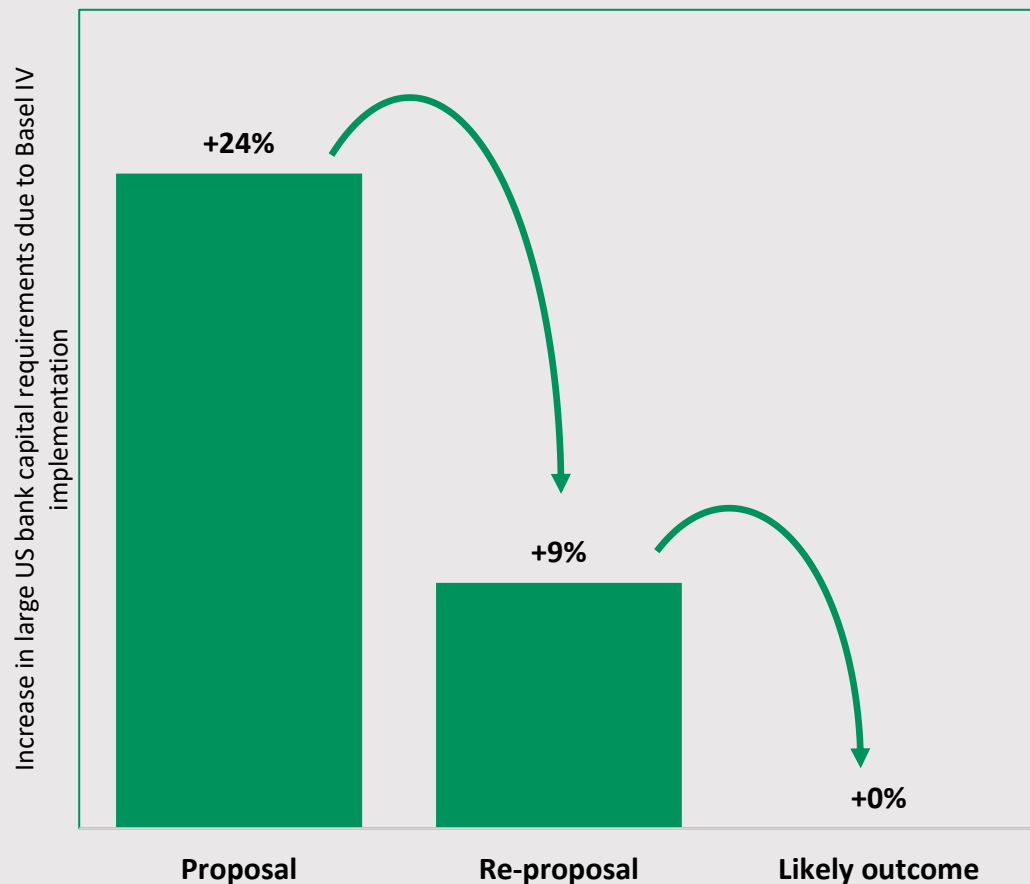
Basel IV was designed to impact banks with a low risk weight density

Basel IV rules would be capital neutral for US banks

Source: Basel III Monitoring Report, October 2018

The proposed US gold-plating of Basel IV is likely to be neutralised

Basel IV impact on US bank capital requirements



The original proposal of Jul 2023 has significant gold-plating, resulting in a +24% increase in capital requirements

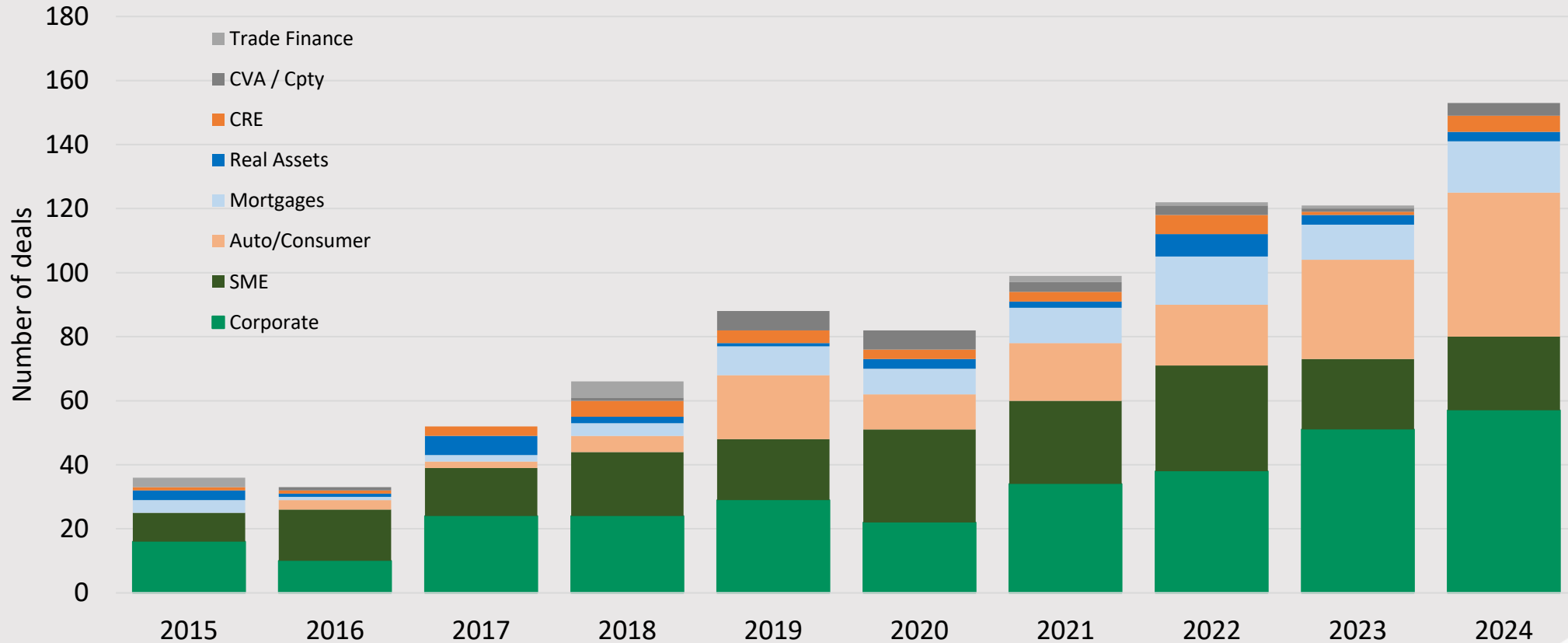
The re-proposal of Sep 2024 decreased the impact to +9%

Capital neutral implementation in the US is now expected (“Basel compliant”?)

Source: Regulatory authorities, BIS Basel RCAP, BNP Paribas

Bank CPM (esp. SRT) has grown and become truly strategic

The risk transfer market has been growing

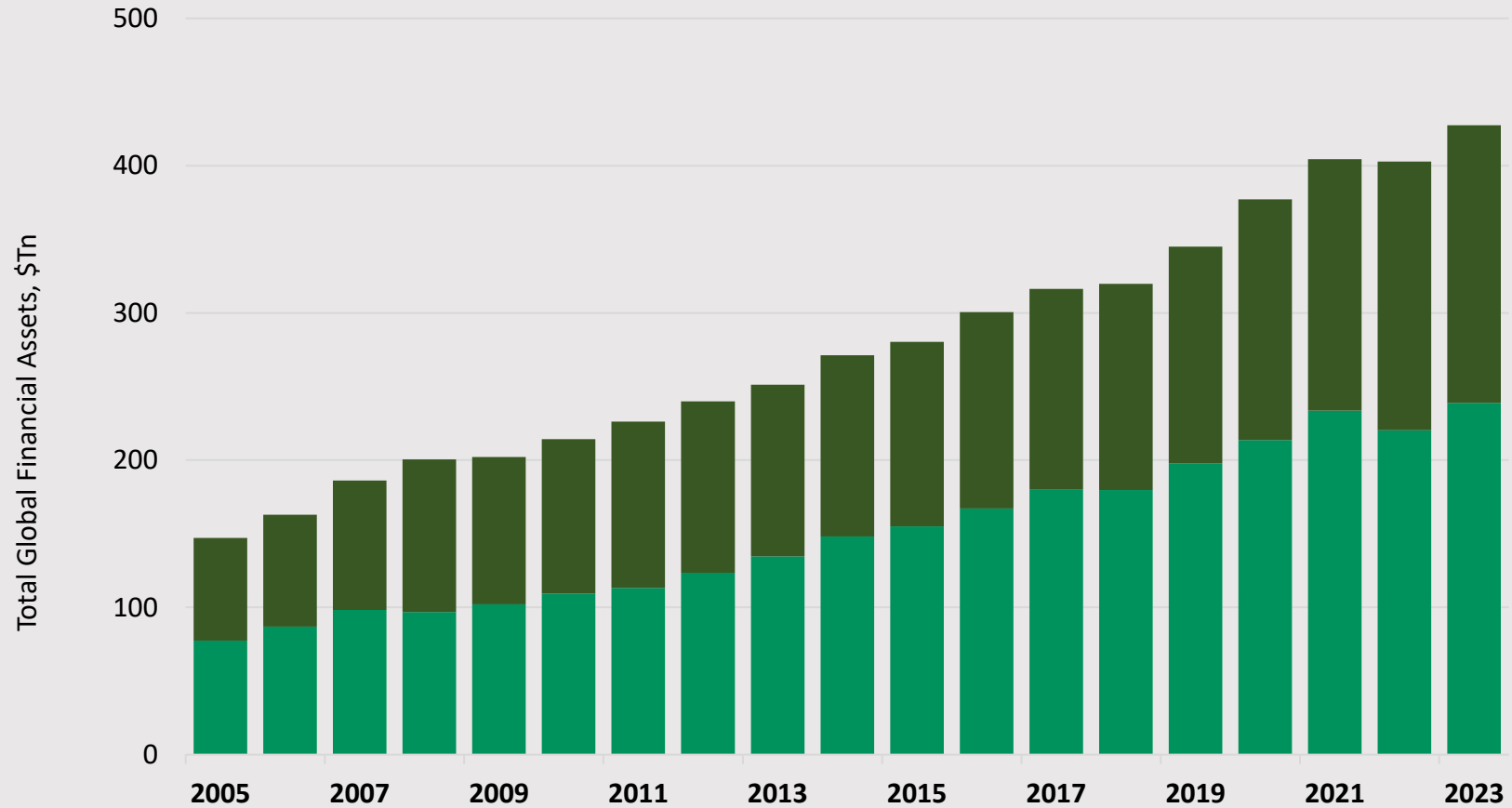


Source: BNP Paribas



Shadow banking is on the rise

Lending by NBFIs has been increasing



Banks

NBFI

Source: Global Monitoring Report on Non-Bank Financial Intermediation 2024, FSB



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Thank you for attending!